Breaking new ground

Half-yearly financial report 2018

Key figures of the LBBW Group

Income statement (EUR million)	1 Jan. – 30 Jun. 2018	1 Jan. – 30 Jun. 2017[1]
Net interest income	796	797
Net fee and commission income	262	270
Net gains/losses on remeasurement and disposal	135	191
of which allowances for losses on loans and securities[2]	– 33	– 40
Other operating income/expenses	58	56
Total operating income/expenses	*1,250*	*1,313*
Administrative expenses	– 878	– 897
Expenses for bank levy and deposit guarantee system	– 89	– 69
Guarantee commission for the State of Baden-Württemberg	0	– 38
Net income/expenses from restructuring	0	– 30
Consolidated profit/loss before tax	*282*	*279*
Income taxes	– 77	– 77
Net consolidated profit/loss	*206*	*201*

Key figures in %	1 Jan. – 30 Jun. 2018	1 Jan. – 30 Jun. 2017[1]
Return on equity (RoE)	4.4	4.3
Cost/income ratio (CIR)	75.4	76.4

Balance sheet figures (EUR billion)	30 Jun. 2018	31 Dec. 2017[1]
Total assets	258.5	237.7
Equity	13.1	13.4

Ratios in accordance with CRR/CRD IV (after full implementation)	30 Jun. 2018	31 Dec. 2017
Risk-weighted assets (EUR billion)	79.1	75.7
Common equity Tier 1 (CET 1) capital ratio (in %)	14.9	15.7
Total capital ratio (in %)	21.5	22.2

Employees	30 Jun. 2018	31 Dec. 2017
Group	10,143	10,326

Rating (21 August 2018)

Rating	Moody's Investors Service	Rating	Fitch Ratings
Long-term Issuer Rating	Aa3, stable	Long-term Issuer Default Rating	A–, stable
Long-term Bank Deposits	Aa3, stable	Long-term Deposit Rating	A–
Senior Unsecured Bank Debt	Aa3, stable	Long-term Senior Preferred Debt Rating	A–
Junior Senior Unsecured Bank Debt	A2	Long-term Senior Non-Preferred Debt Rating	A–
Short-term Ratings	P–1	Short-term Issuer Default Rating	F1
Baseline credit assessment (financial strength)	baa2	Viability rating (financial strength)	bbb +
Public-sector covered bonds	Aaa	Public-sector covered bonds	-
Mortgage-backed covered bonds	Aaa	Mortgage-backed covered bonds	-

1 The previous year's figures based on IAS 39 were transferred to the structure of the IFRS 9 scheme without adjustments.
2 Relates to the category »Financial assets measured at amortized cost«.
Differences due to rounding effects.

Key figures of the LBBW Group

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Foreword by the Board of Managing Directors

Dear Readers,

»Breaking new ground« – this is the motto with which we began 2018, the year of our 200th anniversary. Now, at the middle of the year, we can say that not only are we breaking new ground, but that we have also put a lot of new things into action in recent months.

These include innovative products and services such as the »Debtvision« digital marketplace for »Schuldscheine«, which we created together with the Stuttgart Stock Exchange. Or a »green Hypothekenpfandbrief«. Or the intensive dialog and new forms of cooperation with each other and with our customers to help develop forward-looking ideas and services.

We are therefore well on our way to achieving what we set out to do: moving our Bank forward in line with the four strategic cornerstones of business focus, digitalization, sustainability and agility, making it even better along the way.

Despite the many changes, the first half of 2018 was defined by a high level of consistency and stability. We once again generated a solid, nine-figure consolidated net profit. In a challenging market environment, we were able to trust in our customer-oriented business model and further expand our Corporate Customers business in particular.

The enormous dedication of our employees is a key reason for this positive development – in terms of the Bank’s ability to innovate, our customer proximity and stable customer relations. We would like to take this opportunity to sincerely thank all of our employees for this.

We will continue the course we have embarked on in the second half of the year. We still expect to achieve a mid-nine-figure consolidated profit before tax this year.

We would like to thank our customers, business partners and owners for their trust. We look forward to continuing our excellent working relationship.

Sincerely,

The Board of Managing Directors

RAINER NESKE
Chairman

MICHAEL HORN
Deputy Chairman

KARL MANFRED LOCHNER

DR CHRISTIAN RICKEN

THORSTEN SCHÖNENBERGER

VOLKER WIRTH

02

Interim Group management report as at 30 June 2018

Business report for the Group

Economic development remained on an upward trajectory in Germany in the first half of 2018, though the momentum has slowed noticeably compared to 2017. German GDP grew by 0.3 % quarter-on-quarter in the first quarter, after growth in the two preceding quarters of 0.7 % and 0.6 % respectively. Signs of economic deceleration have become more frequent as the first half of 2018 has progressed, with the Ifo Institute's business climate index falling to 101.8 by June, down 3.4 points from the historical high in November 2017. The trend in the euro area has been similar. GDP in the euro area has risen by 0.4 % quarter-on-quarter in the first quarter, up 2.5 % on the same quarter of the previous year. GDP growth was 0.3 % quarter-on-quarter and 2.2 % year-on-year in the second quarter. The increase in the fourth quarter of 2017 had been 2.8 % as against the same quarter of the previous year. Inflation picked up in the period under review. Consumer prices in Germany increased by 1.6 % in January, before accelerating to 2.1 % by June. Over the same period, the euro area accelerated from 1.3 % to 2.0 %, reaching its highest level since February 2017. The higher inflation was mainly as a result of the strong rise in energy prices. Economic performance in the US grew by 0.5 % quarter-on-quarter in the first quarter, then moving up a gear to 1.0 % quarter-on-quarter in the second quarter. US GDP in the second quarter was 2.8 % higher than in the same period of the previous year.

Economic performance in the euro area was weighed down by several extraordinary factors at the start of the year (flu epidemic, industrial action). In Germany specifically, capacity bottlenecks already became apparent on account of the high capacity utilization in the economy. Moreover, there were growing concerns regarding the negative repercussions of various political risks, which are lurking both within the euro area (Italy, migration debate) and in the escalating trade dispute with the US. Over the last few months, US President Trump has been trading blows with the EU and with China, which has already effectively resulted in reciprocally higher tariffs on various goods. It is not yet possible to determine whether these measures, which began with higher US tariffs on steel and aluminum, have already had an impact on the real economy. As far as the US economy is concerned, so far neither real economic data nor key sentiment indicators have shown any signs of a downturn. On the contrary, the past few months have been dominated by the positive impact of the massive tax cuts resolved by the US Congress in December 2017.

Despite the slowing of economic momentum, the monetary policy of the European Central Bank (ECB) is still going through the phase of a gradual exit from the ultra-expansive measures introduced in the wake of past crises. The ECB halved its monthly net bond purchase volume from EUR 60 billion to EUR 30 billion at the start of 2018. In addition, the ECB Governing Council meeting in June decided to halve the purchase volume again to EUR 15 billion per month in October 2018. Net purchases are expected to cease entirely as at the end of the year. However, the reinvestment of maturing securities is also expected to continue for some considerable time to keep total assets approximately stable from 2019 onwards. The main refinancing rate was left unchanged at 0 % in the first half of the year. The deposit rate, at which commercial banks can invest excess liquidity with the ECB, is still – 0.40 %. According to the ECB's decision of June 2018, both rates are to remain at their current levels until at least summer 2019. By contrast, the US Federal Reserve raised its key lending rate by 25 basis points twice in the first half of the year, to currently between 1.75 % and 2.00 %. Moreover, the policy of a gradual reduction in total assets has both continued and is gathering momentum. The total assets of the US Federal Reserve towards the end of June 2018 amounted to USD 4,305 billion, down by around 3.3 % from USD 4,450 billion as at the end of 2017.

On the market for German government bonds, 10-year Bund yields ranged between 0.26 % and 0.77 %. Yields on 2Y Bunds were mired deep in negative territory. Yields on 10Y and 2Y German government bonds were 0.30 % and – 0.67 % respectively at the end of June 2018.

On the European stock markets, prices were in decline for long stretches of time in view of the political risks. The DAX closed out the end of 2017 at 12,918 points. In Germany, the lifting effect of the US tax reform drove prices to a high for the year of 13,560 points – and thus a record high (daily closing prices) – on 23 January. A combination of rising bond yields and trade war fears then drove prices back down to a low of 11,787 points as at the end of March. Germany's DAX index recovered to 12,306 points by the middle of the year. The benchmark for the US stock exchanges, the Dow Jones Industrials, began at 24,719 points and ended the first half-year only moderately lower at 24,271 after having reached a new record of 26,617 points in the interim.

The euro lost ground against the US dollar on the currency market. A euro was worth USD 1.20 at the beginning of the year, and was down to USD 1.17 after six months. Factors weighing on the euro included disappointing economic data for the euro area and concerns over the negative impact of the trade conflict on export-oriented sectors of the economy. The formation of a new government in Italy out of populist, euro-skeptical parties likewise impacted the single currency, while the US dollar was propped up by rising US interest rates.

Business performance of the LBBW Group in the first half of 2018
Results of operations, net assets and financial position

Successful first half-year with improved earnings before taxes, accompanied by stable capital ratios and growth in customer business

The LBBW Group's year to date has been marked by favorable economic conditions and an amicable economic situation in Germany, forming the basis for solid results for the first half of the year. The Group achieved several successes in terms of its four strategic cornerstones of business focus, digitalization, sustainability and agility in the first half of 2018, while activities focused even more strongly on customer business. For example, project financing operations were intensified and further progress was made in the internationalization of customer business, which included the opening of a representative office in Toronto, Canada, to expand the international network. Another sustainable capital market product was successfully placed on the market with the issue of a »green Hypothekenpfandbrief«. Since successfully implementing Blockchain, the LBBW Group has taken a key step in the digitalization of its promissory note loan business. Together with Stuttgart Stock Exchange, LBBW has created a digital marketplace for funding under the DEBTVISION brand, and has already used it to process its first transactions. The Group has increasingly being using agile methods in order to meet the challenges posed by competition in the banking industry, while also being able to take projects forward more efficiently.

Nevertheless, business performance continued to be characterized by highly intensive competition in the banking industry, the difficult general conditions in capital markets business and the growing challenges of regulation and of high investment pressure due to digitalization. There remains uncertainty regarding the specifics of Brexit, which is still preventing a reliable assessment of the consequences for the banking landscape. LBBW believes that the potential impact of Brexit will be easily manageable overall, and is countering the risks with ongoing monitoring.

In applying IFRS 9 for the first time, LBBW is exercising the option of not calculating the comparative prior-year figures in accordance with IFRS 9. The comparative information for 2017 is therefore shown in accordance with IAS 39, applying the same accounting policies as in the half-year financial report as at 30 June 2017 and the annual report as at 31 December 2017. The previous year's figures based on IAS 39 were transferred to the structure of the IFRS 9 scheme without adjustments.

Earnings before taxes improved marginally by EUR 4 million to EUR 282 million after the first six month of the year under review (previous year: EUR 279 million), thereby slightly exceeding the forecast figure. In addition to declining administrative expenses, the positive development was also lifted by net gains on remeasurement and disposal, which benefited from the effects described below under »Results of operations«. However, net interest income and net fee and commission income were slightly lower than expected.

In spite of slightly lower income, the ***cost/income ratio (CIR)*** improved by 1.0 percentage points to 75.4 % as at 30 June 2018 (previous year: 76.4 %), thanks mainly to reduced costs, and was therefore in line with planning. LBBW calculates its CIR as the ratio of total administrative expenses, expenses for the bank levy and deposit guarantee system, the guarantee commission for the State of Baden-Württemberg and net restructuring income to total net interest income, net commission income, net gains on remeasurement and disposal less allowances for losses on loans and securities and other operating income/expenses. The ***return on equity (ROE)*** was virtually unchanged year-on-year at 4.4 % (previous year: 4.3 %) and was therefore moderately above the forecast amount. RoE as a performance indicator is calculated on the basis of (annualized) consolidated profit/loss before tax and average equity on the balance sheet, and is adjusted for the unappropriated profit for the period.

Total assets rose moderately by EUR 20.8 billion as against 31 December 2017 to EUR 258.5 billion, slightly ahead of forecasts. The rise in total assets was mainly as a result of a higher volume of cash held with banks and central banks as well as an expansion of business activities with corporate customers.

LBBW's *leverage ratio* was 4.3 % as at the end of the reporting period (fully loaded in accordance with CRR/CRD), and was thus down moderately by 0.3 percentage points as against the previous year but still significantly higher than the current regulatory minimum of 3.0 %.

As at 30 June 2018, LBBW's *minimum liquidity coverage ratio (LCR)* under Commission Delegated Regulation (EU) 2015/61 with regard to liquidity coverage requirements was 144.6 % and therefore in line with the level at the end of 2017 (previous year 145.8 %). The statutory minimum for 2018 of 100 % was therefore substantially exceeded.

Risk-weighted assets rose slightly by EUR 3.4 billion in the period under review to EUR 79.1 billion (previous year: EUR 75.7 billion). This is essentially as a result of business expansion and adjusted customer ratings, though this was offset to some degree by the reduction of exposure risks for investment units.

The LBBW Group's *capital ratios* as at the end of the reporting period remained well in excess of the regulatory capital requirements (CRR/CRD IV fully loaded). Specifically, the *common equity Tier 1 capital ratio* was 14.9 % (31 December 2017: 15.7 %) and the *total capital ratio* was 21.5 % (31 December 2017: 22.2 %). The European Central Bank (ECB) informed LBBW that it must have a common equity Tier 1 capital ratio of 8.80 % as at 1 January 2018. This includes the Pillar 2 capital requirement and the common equity Tier 1 capital to be maintained as a capital conservation buffer in accordance with section 10c of the German Banking Act (KWG) for other systemically important institutions. Section 10d KWG stipulates that a countercyclical capital buffer must be maintained for a marginal share of foreign receivables. The ECB has also declared a capital recommendation that goes beyond the mandatory requirement and that must likewise comprise CET1 capital. This capital recommendation was exceeded as well.

The LBBW Group's risk-bearing capacity is also at a comfortable level. Utilization of *aggregate risk cover (ARC)* amounted to 38.1 % as at the end of the reporting period and was therefore only slightly lower than as at the end of 2017.

The development in the LBBW Group's key performance indicators was stable overall as against the end of 2017 in the first half of 2018.

Results of operations

With profit before tax of EUR 282 million in the first half of the 2018 financial year, LBBW marginally exceeded the previous year's figure by EUR 4 million. The condensed income statement for the LBBW Group has been presented below (please also see the comments in the notes for the figures for the individual segments):

	1 Jan. 2018 – 30 Jun. 2018	1 Jan. 2017 – 30 Jun. 2017[1]	Change	
	EUR million	EUR million	EUR million	in %
Net interest income	796	797	– 1	– 0.1
Net fee and commission income	262	270	– 8	– 3.0
Net gains/losses on remeasurement and disposal	135	191	– 56	– 29.5
of which allowances for losses on loans and securities[2]	– 33	– 40	7	– 17.1
Other operating income/expenses	58	56	2	3.6
Total operating income/expenses	*1,250*	*1,313*	*– 63*	*– 4.8*
Administrative expenses	– 878	– 897	19	– 2.1
Expenses for bank levy and deposit guarantee system	– 89	– 69	– 20	28.7
Guarantee commission for the State of Baden-Württemberg	0	– 38	38	– 100.0
Net income/expenses from restructuring	0	– 30	30	– 99.9
Consolidated profit/loss before tax	*282*	*279*	*4*	*1.4*
Income taxes	– 77	– 77	1	– 0.9
Net consolidated profit/loss	*206*	*201*	*5*	*2.3*

Figures may be subject to rounding differences. Percentages are based on the exact figures.
1 The previous year's figures based on IAS 39 were transferred to the structure of the IFRS 9 scheme without adjustments.
2 Relates to the category »Financial assets measured at amortized cost«.

At EUR 796 million, ***net interest income*** was stable year-on-year (EUR 797 million) despite historically low interest rates. While the ECB's ongoing expansionary monetary policy, with negative interest rates at times, impacted the investment of LBBW's own funds, earnings were able to improve thanks to the growth in business with corporate customers. Net interest income was positively influenced by the EUR 23 million contribution from the ECB's targeted longer-term refinancing operations II (TLTRO II). Accounting effects, for example in connection with hedge accounting, also had a slightly positive effect on results in the first half of 2018. Overall, however, results were negatively impacted by the intense competition within the banking sector, which was reflected by rising margin pressure on new business in particular.

Net fee and commission income decreased marginally in the first half of 2018 by EUR 8 million to EUR 262 million (previous year: EUR 270 million). Above all, income from brokerage business was in decline, while there were increases in asset management activities, including fund consulting services in particular. Developments in commission from lending business, payment transactions and securities and custody business were stable with only marginal changes.

Net gains on remeasurement and disposal fell sharply by EUR 56 million to EUR 135 million (previous year: EUR 191 million), and was defined by the at times opposing effects described below:

Reversals of write-downs to a higher fair value at an associate lifted the ***net income from investments accounted for using the equity method*** considerably, by EUR 16 million to EUR 27 million.

Thanks to the good quality of the portfolio and the consistently good state of the economy on the core markets, the net addition to ***allowances for losses on loans and securities measured at cost*** was EUR 7 million less than the previous year's figure of EUR – 33 million as at 30 June 2017 (EUR – 40 million).

The marked decline in ***net income from financial instruments measured at fair value through other comprehensive income*** was caused in particular by lower contributions from securities and equity investments. While net income from securities was down by EUR – 40 million at EUR 12 million, net income from equity investments was reduced by EUR – 38 million to EUR 0 million. Following the

introduction of IFRS 9, the earnings contributions from equity investments are reported under 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 were at the same level as the previous year at EUR 129 million (EUR 130 million). Capital market activities contributed EUR 116 million to the result, while banking book management contributed only EUR 13 million. Hedge accounting had a slightly negative effect of EUR – 11 million. Following the introduction of IFRS 9, net income from equity investments and other equity instruments are reported with net gains/losses from financial instruments measured at fair value through profit or loss as an element of banking book activities and amounted to EUR 33 million. Net gains from other equity instruments benefited from a subsequent purchase price payment in connection with a disposal of an equity investment in 2015.

Net other operating income/expenses increased slightly by EUR 2 million in total to EUR 58 million despite offsetting effects. While net income from the disposal of property decreased by EUR – 16 million, net additions to provisions improved by EUR 15 million. Net income from investment property was virtually unchanged, but rose by EUR 6 million as a result of currency translation effects.

Despite continued high investment in the restructuring and modernization of IT, ***administrative expenses*** fell marginally by EUR 19 million year-on-year to EUR – 878 million (previous year: EUR – 897 million). Reflecting the reduction in the number of employees and lower pension expenses, staff costs fell by EUR 11 million to EUR –497 million (previous year: EUR –507 million) despite offsetting effects from pay-scale adjustments. Other administrative expenses were also down by EUR 11 million at EUR – 331 million (previous year: EUR – 342 million), in particular as a result of a reduction in IT costs, which in the previous year had included high expenses for the operational launch of the new core banking system in April 2017. Nonetheless, investment in the modernization of IT, not least for more extensive digitalization, was at a high level. Depreciation on property, plant and equipment and amortization on intangible assets climbed by EUR – 2 million to EUR – 50 million on account of past investment in IT.

The rise in ***expenses for the bank levy and deposit guarantee system*** of EUR – 20 million to EUR –89 million was caused in part by an adjustment of the assessment base, which rose from 1.05 % to 1.15 % of guaranteed deposits. The volume of contributions is also spread across a smaller number of institutions.

The state of Baden-Württemberg had guaranteed certain loans to the special-purpose entity Sealink until the end of 2017. ***Guarantee commission*** of EUR – 38 million was paid for this in the previous year. Following the discontinuation of the risk protection set up for the loans to Sealink, guarantee commission is no longer paid to the State of Baden-Württemberg, hence no further expenses were incurred.

While ***net restructuring expenses*** of EUR – 30 million were incurred in the first half of 2017 for the streamlining of business processes and the product range, further restructuring provisions were not required as at 30 June 2018.

At EUR 282 million, consolidated profit before tax was up EUR 4 million on the previous year. Income tax expense rose was stable year-on-year EUR –77 million, with the result that consolidated profit after taxes amounted to EUR 206 million for the first half of 2018 (previous year: EUR 201 million).

Net assets and financial position

Assets	30 Jun. 2018 EUR million	31 Dec. 2017[1] EUR million	Change EUR million	 in %
Cash and cash equivalents	32,522	22,729	9,793	43.1
Financial assets measured at amortized cost	166,177	157,494	8,684	5.5
Financial assets measured at fair value through other comprehensive income	23,045	21,185	1,859	8.8
Financial assets designated at fair value	967	732	235	32.1
Financial assets mandatorily measured at fair value through profit or loss.	30,386	30,654	– 267	– 0.9
Shares in investments accounted for using the equity method	266	245	22	8.8
Portfolio hedge adjustment attributable to assets	555	606	– 51	– 8.5
Non-current assets held for sale and disposal groups	7	104	– 98	– 93.6
Intangible assets	226	244	– 18	– 7.4
Investment property	699	554	144	26.0
Property and equipment	460	482	– 22	– 4.6
Income tax assets	1,166	1,108	57	5.2
Other assets	2,055	1,575	479	30.4
Total assets	***258,530***	***237,713***	***20,817***	***8.8***

1 The previous year’s figures based on IAS 39 were transferred to the structure of the IFRS 9 scheme without adjustments.

Equity and liabilities	30 Jun. 2018 EUR million	31 Dec. 2017[1] EUR million	Change EUR million	 in %
Financial liabilities measured at amortized cost	208,132	191,105	17,027	8.9
Financial liabilities designated at fair value	6,933	2,726	4,208	> 100
Financial liabilities mandatorily measured at fair value through profit or loss	24,819	25,196	– 378	– 1.5
Portfolio hedge adjustment attributable to liabilities	252	239	, 13	5.5
Provisions	3,812	3,796	16	0.4
Income tax liabilities	69	75	– 6	– 7.9
Other liabilities	1,417	1,199	218	18.2
Equity	13,095	13,377	– 281	– 2.1
Total equity and liabilities	***258,530***	***237,713***	***20,817***	***8.8***
Guarantee and surety obligations	7,000	6,734	266	3.9
Irrevocable loan commitments	25,683	22,412	3,271	14.6
Business volume	***291,213***	***266,859***	***24,354***	***9.1***

1 The previous year’s figures based on IAS 39 were transferred to the structure of the IFRS 9 scheme without adjustments.

Consolidated total assets rise further based on customer-oriented business model

At EUR 258.5 billion, ***total assets*** were moderately (EUR 20.8 billion) higher as at 30 June 2018 than at the end of 2017, and only slightly higher than the forecast figure. The growth in total assets essentially resulted from the accumulation of credit at central banks and loans and advances to banks in addition to the expansion of business relationships with corporate customers. The developments in equity and liabilities were almost exclusively due to the rise in short-term refinancing.

In line with this, the ***business volume*** was EUR 291.2 million as at 30 June 2018, showing moderate growth of EUR 24.4 billion as against 31 December 2017. In addition to the change in total assets in the reporting period, the increase was due to a rise of EUR 3.3 billion in irrevocable loan commitments.

Business performance at the start of the year was defined by highly intensive competition and rising volatility on the capital markets. Despite this, LBBW was able to achieve growth in its lending and deposit business in this difficult environment. LBBW reported consistently high demand for share-based certificates in its business with banks and savings banks. The cooperation with the savings banks also led to growth in new business in the area of development loans, and there has been a marked increase in lending to medium-sized and large enterprises. Furthermore, LBBW reported a higher volume in commercial real estate financing with a high share of certified, sustainable real estate.

Sustainability is one of LBBW's four strategic cornerstones. LBBW was able to highlight its strong product expertise in the sustainable issues market segment. In June, it placed its first »green Hypothekenpfandbrief« with a volume of EUR 500 million and a term of five years. Just in May, LBBW became the first continental European bank to issue the largest ever covered bond in the form of a mortgage bond denominated in sterling, with a volume of GBP 750 million and a term of three years.

IFRS 9 has been effective for companies that report in accordance with International Financial Reporting Standards (IFRS) since 1 January 2018. This replaces the previous accounting regulations of IAS 39. The transition to IFRS 9 essentially resulted in changes to the classification and measurement of financial instruments, new regulations for recognizing impairment and the adoption of a new model for general hedge accounting.

Lending

Cash and cash equivalents amounted to EUR 32.5 billion as at 30 June 2018, EUR 9.8 billion higher than the figure for the previous year. The excess liquidity on the money markets also led to rising central bank balances.

The item *Financial assets measured at amortized cost* rose by EUR 8.7 billion to EUR 166.2 billion.

There was a clear increase of EUR 7.5 billion in *Loans and advances to banks*, bringing their total to EUR 55.7 billion at the end of the reporting period. Repo business was up by EUR 2.7 billion, in particular as a result of the growth in business with central counterparties and major European banks. The stronger development loan business with savings banks allowed public-sector loans to climb by EUR 0.9 billion.

Loans and advances to customers rose by EUR 1.6 billion to EUR 109.2 billion as at 30 June 2018, mainly on account of activities with corporate customers. In connection with the transition to IFRS 9, transactions that did not satisfy the contractual cash flow criterion (referred to as »SPPI«) on account of adverse collateral agreements were allocated to financial assets mandatorily measured at fair value through profit or loss in the amount of EUR 2.8 billion. A portfolio of EUR 2.3 billion used for short-term liquidity management was allocated to the »hold to collect and sell« business model, and is therefore reported at fair value through other comprehensive income. This was offset by increases in securities repurchase business of EUR 3.5 billion and overnight and term deposits of EUR 1.6 billion in the current financial year.

The statement of financial position item ***Financial assets measured at fair value through other comprehensive income*** climbed by EUR 1.9 billion to EUR 23.0 billion, mainly on account of the reclassification of a portfolio to manage LCR[1] in the context of the transition to IFRS 9. The adoption of IFRS 9 has meant the reclassification of equity investments from measurement through other comprehensive income to measurement through profit or loss. This item still mainly consists of debentures and fixed-income securities.

Financial mandatorily assets measured at fair value through profit or loss fell by EUR – 0.3 billion to EUR 30.4 billion. In addition to transactions that do not satisfy the contractual cash flow criterion, non-consolidated equity investments that were previously measured at fair value through other comprehensive income are now reported under this item in accordance with IFRS 9, causing it to rise by EUR 3.2 billion. In particular, netting effects on derivatives held for trading reduced this item by EUR – 1.8 billion in total. Furthermore, bonds and promissory note loans were down by EUR – 0.7 billion and promissory notes held for trading by EUR – 0.4 billion.

Funding

The year-on-year changes on the equity and liabilities side of the statement of financial position were essentially due to *Financial liabilities measured at amortized cost*, which rose by EUR 17.0 billion to EUR 208.1 billion. In line with the development on the assets side, the growth related almost exclusively to short-term refinancing and short-term money market transactions.

Deposits from banks changed by EUR 10.8 billion to EUR 72.7 billion. In particular, overnight and term deposits rose by EUR 5.4 billion as a result of new business with international banks. In addition, the volume of securities repurchase agreements was up by EUR 3.3 billion and other liabilities by EUR 2.3 billion.

The item ***Deposits from customers*** was EUR 7.9 billion higher as against the end of 2017 at EUR 87.3 billion. By and large, this development was due to an increase in overnight and term deposits of EUR 7.6 billion. Current account liabilities likewise rose by EUR 0.9 billion. The German states in particular increasingly turned to LBBW to invest their cash funds.

By contrast to the two above items, ***Securitized liabilities*** declined by EUR – 1.6 billion to EUR 42.8 billion in the first half of 2018. The change is due to the transition to IFRS 9, which requires the designation of transactions with accounting mismatches to the fair value option.

Liabilities designated at fair value rose by EUR 4.2 billion to EUR 6.9 billion. This was partly on account of the reclassification of transactions with accounting mismatches in the amount of EUR 2.8 billion to the fair value option in accordance with IFRS 9. New issues such as the covered mortgage bond increased these securitized liabilities by a further EUR 1.4 billion in the current financial year.

Financial liabilities mandatorily measured at fair value through profit or loss dropped slightly by EUR – 0.4 billion to EUR 24.8 billion. Derivatives held for trading declined by EUR – 1.1 billion to EUR 14.4 billion which – like the development under assets – was largely caused by netting effects. By contrast, obligations from short sales of securities climbed by EUR 0.7 billion and securitized liabilities by EUR 0.6 billion.

1 Liquidity coverage ratio

Equity

At EUR 13.1 billion as at 30 June 2018, LBBW's ***equity*** was virtually unchanged as against 31 December 2017 (previous year: EUR 13.4 billion). The decline is essentially due to the first-time effects of the adoption of IFRS 9 of EUR – 0.2 billion and the distribution of dividends to shareholders of EUR – 0.2 billion.

Financial position

LBBW's funding strategy is determined by the Asset Liability Committee (ALCo). Here the Group focuses on ensuring a balanced overall structure in terms of the groups of products and investors used. The Group's financial position was satisfactory throughout the entire first half of 2018 thanks to the good liquidity situation. LBBW was able to obtain funding to the desired extent at all times. The Bank has been required to maintain a liquidity coverage ratio (LCR) of 100 % since 1 January 2018, and has done so at all times as far 30 June 2018. LBBW has outperformed this target substantially at 144.6 %. LBBW comfortably achieved the minimum level throughout the whole of 2017 as well.

Risk and opportunity report

Risk management systems

The risk management methods and processes presented in the combined management report as at 31 December 2017 are still applied by the LBBW Group as at 30 June 2018. 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 for 2017. The following table provides a brief overview:

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

Further developments

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 further aligning integrated bank management with the more stringent requirements. The structural aspects are being addressed in a medium-term program.

Regulatory framework

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

One of the core tasks of the ECB is to carry out an independent assessment and review of banks' capital and liquidity resources. The central tool used here is the 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.

A comprehensive EBA/ECB stress test as at 31 December 2017 will again be conducted in 2018. IFRS 9 will be taken into account for the first time, which will have a significant impact on data and data collection. The regulations of the new standard, which have been effective since 1 January 2018, must be applied both at the starting date and in projections. The calculation of allowances (impairment) entails substantial challenges. This includes the allocation of individual receivables to the three stages reflecting the development in an instrument's credit quality. This is the basis for calculating expected credit losses using stress test assumptions. The stress test again includes a »baseline« and an »adverse« scenario. Different macroeconomic effects are modeled on the basis of the 2017 financial statement data for a period of three years for both scenarios. Credit risk (including securitization), market and counterparty risk, operational risks (including conduct risk) and the impact on net interest income are stressed.

The baseline scenario reflects the ECB's economic forecast published in December 2017. The adverse stress scenario assumes the materialization of four systemic risks that are currently considered to be the most significant threats to the stability of the EU banking sector, and that would mean a drop in the EU's GDP of 8.3% from its initial level by 2020. This is therefore the most severe scenario of the stress tests performed to date.

LBBW has been working on the stress test intensively since the start of the year and has submitted its data deliveries on time to date. The final data delivery is scheduled for 5 September. The results for each individual bank are due to be published on 2 November 2018.

The stress test results will be used within the scope of determining the SREP ratio for 2019 (bank-specific capital requirements or capital guidance). As in the 2016 stress test, compliance with minimum ratios is not a requirement and therefore it is not possible to »fail«.

In addition to the stress test, the ECB has identified other priorities for its supervisory work in 2018. The central issues remain largely unchanged. These include risks in connection with the business model and financial performance, credit risk (non-performing loans and concentration risk) and risk management (targeted review of internal models, ICAAP/ILAAP). There are also current aspects such as preparations for Brexit and IT/cybercrime.

Risk situation of the LBBW Group

LBBW manages its risks from two mutually complementary perspectives. To ensure appropriate capitalization from an economic perspective (risk-bearing capacity), the economic steering group regularly compares the aggregate risk cover against the material risks. In addition to this economic, present value perspective, LBBW's control concept also includes the normative (regulatory) steering group.

The economic capital commitment has declined by a total of EUR 0.6 billion since the end of 2017. The reduction results in particular from the integration of the calculation of the interest and credit spread risk from pension provisions into market price risk. Pension risks were fully shown under other risks as at the end of 2017. In addition to its impact on other risks, this refinement of methodology also has a positive effect on market price risk. The reason for this is a hedge effect on existing interest rate positions.

As at the end of the first half of 2018, aggregate risk cover (ARC) had increased by EUR 0.3 billion compared to the end of 2017. The increase is particularly due to the strengthening of the capital base as a result of raising subordinated capital and the ploughback of earnings.

In summary, the LBBW Group's risk-bearing capacity and stress resistance were safeguarded at all times in the first half of 2018, and have improved even further as against the end of 2017.

The economic capital limit was maintained at all times at Group level. The utilization of aggregate risk cover was 38 % as at 30 June 2018.

LBBW Group – Risk-bearing capacity

	30 Jun. 2018		31 Dec. 2017	
EUR million	**Absolute[1]**	**Utilization**	**Absolute[1]**	**Utilization**
Aggregate risk cover	16,677	38 %	16,495	42 %
Economic capital limit[2]	12,800	50 %	12,800	54 %
Correlated total economic capital	6,346		6,903	
of which:				
interrisk correlations	– 404		– 446	
counterparty risks	3,530		3,326	
Market price risks.	1,564		1,974	
investment risks	35		35	
Operational risks.	744		781	
development risks	139		102	
real estate risks	147		162	
other risks[3]	592		970	

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

Opportunities

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

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

Furthermore, from an economic perspective, the very low utilization of aggregate risk cover creates capacity for potential new business and the possible tightening of regulatory requirements.

Risk types[1]

Counterparty risk

Risk situation of the LBBW Group[2]

The description of the risk situation is based on the credit risk management methods and instruments described in the combined management report for 2017.

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

As part of the first-time adoption of the impairment regulations of IFRS 9, detailed overviews broken down by rating classes, sectors, regions and size classes have been added to note 29 (»Counterparty risk«).

Development of exposure

The following table shows the trend of gross and net exposure and the risk-mitigating effects as at the end of the respective reporting periods.

Development of exposure

EUR million	30 Jun. 2018	31 Dec. 2017
Gross exposure	**331,740**	**307,309**
Netting/collateral	92,927	77,368
Credit derivatives (protection buy)	6,985	7,828
Classic credit collateral	40,465	40,487
Net exposure	*191,364*	*181,625*

Gross exposure amounts to EUR 332 billion as at the end of the reporting period, and is therefore around EUR 24 billion or 8 % higher than as at the end of 2017. As a result of the simultaneous increase in the risk-reducing effects of netting and collateral agreements and despite a decline in credit derivatives (protection buy), the increase is not fully reflected in net exposure. Net exposure rose by EUR 10 billion or 5 % to EUR 191 billion.

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

1 Information on total economic capital tied up for the individual risk types can be found in the section on the risk management systems/risk situation of the LBBW Group.
2 Information on the risk situation is based on the management approach. Differences from the carrying amounts used for accounting purposes are due to factors described in the 2017 risk and opportunity report.

Portfolio quality

The breakdown by internal rating class shows the year-on-year development in portfolio quality.

Portfolio quality

Net exposure	EUR million 30 Jun. 2018	in % 30 Jun. 2018	EUR million 31 Dec. 2017	in % 31 Dec. 2017
1(AAAA)	33,171	17.3 %	33,780	18.6 %
1(AAA) – 1(A–)	90,279	47.2 %	87,524	48.2 %
2 – 5	48,921	25.6 %	43,962	24.2 %
6 – 8	12,600	6.6 %	9,804	5.4 %
9 – 10	2,528	1.3 %	2,604	1.4 %
11 – 15	1,185	0.6 %	1,041	0.6 %
16 – 18 (default)[1]	824	0.4 %	908	0.5 %
Other[2]	1,855	1.0 %	2,003	1.1 %
Total	*191,364*	*100.0 %*	*181,625*	*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. The net exposure is presented before impairment.
2 Includes non-rated transactions, in particular rating waivers.

The LBBW Group has good portfolio quality. The investment grade share (ratings of 1(AAAA) to 5) fell slightly to 90.1 % (31 December 2017: 91.0 %) as a result of migrations to the 6 – 8 rating cluster. Accordingly, the non-investment grade share of the portfolio (ratings 6 to 15) rose to 8.5 % (previous year: 7.4 %). The top rating class 1 (AAAA) mainly includes German non-central public-sector entities. The non-performing exposure was also slightly reduced further to 0.4 % of the entire portfolio, in line with the trend of previous years.

Sectors

The presentation of the sectors by net exposure, credit value-at-risk (CVaR) and default portfolio also provides information on the scope of business activities and the risk situation in the respective sector. The sector classification is based on LBBW's internal risk-oriented industry code that corresponds with the organizational risk management responsibilities in the corporates portfolio. The sector structure was optimized in the first half of 2018, which included the introduction of new focus sectors (e.g. pharmaceuticals and healthcare).

Sectors

EUR million	Net exposure 30 Jun. 2018	CVaR 30 Jun. 2018	Default 30 Jun. 2018	Net exposure 31 Dec. 2017	CVaR 31 Dec. 2017	Default 31 Dec. 2017
Financials	**81,398**	**902**	**14**	**73,240**	**790**	**20**
of which transactions under specific state liability[1]	12,910	48	0	12,347	21	0
Corporates[2]	**72,852**	**1,646**	**662**	**69,456**	**1,546**	**713**
Automotive	13,266	429	77	12,718	368	100
Construction	6,735	186	52	6,679	175	56
Chemicals and commodities	5,399	117	57	5,125	100	59
of which chemicals	2,526	61	1	2,458	51	2
of which commodities	2,873	55	56	2,667	50	57
Retail and consumer goods	11,566	186	129	11,345	198	127
of which consumer goods	8,326	120	82	8,139	127	63
of which durables	3,240	66	46	3,206	71	64
Industry	9,479	173	83	8,969	176	87
Pharmaceuticals and healthcare	4,122	72	9	3,801	76	8
TM and electronics/IT	5,678	103	65	5,516	97	68
Transport and logistics	4,482	119	19	3,994	99	21
Utilities and energy	6,977	165	112	6,978	165	122
of which utilities and disposal companies	4,001	87	36	3,985	87	38
of which renewable energies	2,975	79	75	2,993	78	84
Other	5,149	95	59	4,332	92	65
Real Estate	**9,909**	**368**	**102**	**8,870**	**323**	**117**
Commercial real estate (CRE)	6,805	311	81	6,163	271	95
Housing	3,104	56	21	2,707	53	23
Public sector	**22,187**	**265**	**0**	**25,199**	**314**	**0**
Private individuals	**5,018**	**103**	**45**	**4,861**	**104**	**58**
Total	**191,364**	**3,284**	**824**	**181,625**	**3,078**	**908**

1 This figure shows transactions with a statutory guarantee (*Gewährträgerhaftung*) and transactions with central banks and banks with a public-sector background.
2 A new sector classification was introduced for corporates in the first half of the year. The prior-year amounts were adjusted accordingly.

Financials represent the largest of the five main sectors with net exposure of EUR 81 billion as at the end of the reporting period. The increase of around EUR 8 billion as against the end of 2017 is essentially due to the increased exposure to private banks. The slight rise in exposure to central banks also entails a higher number of transactions under special public-sector liability.

In the corporates portfolio, above all the automotive, industry and transport/logistics sectors contributed EUR 3 billion to exposure, bringing the total to EUR 73 billion in the first half of 2018. As in the previous year, automotive is the most important sector in the portfolio in terms of concentration aspects and will therefore continue to be monitored closely in the interests of managing concentrations. In addition to the analysis of market development, current topics such as electromobility, autonomous driving and new mobility concepts, together with their effects on the manufacturers and suppliers, are analyzed and assessed.

In addition to the automotive sector, commercial real estate is one of the most important sectors in the portfolio. Having diversified our strategic locations, we do not see any excessive concentration risk in this portfolio. Growth in commercial real estate and housing increased the net exposure in real estate as a whole by EUR 1 billion year-on-year to EUR 10 billion in line with CVaR.

With a corresponding lower CVaR, public-sector net exposure was down EUR 3 billion as against the end of 2017 at EUR 22 billion. There were reductions in the exposure to German public-sector entities in particular.

The net exposure and CVaR for private individuals are unchanged compared to the previous year's level. This portfolio has a particularly high level of granularity.

Regions

The share of domestic business in the net exposure is 69.2 %. The basic distribution by region is largely constant. The focus on the stable and low-risk core markets in private, SME and large customer business, and the function as a central bank for the savings banks, will ensure a dominant German share in the future as well.

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

Regions

Net exposure in %	Share 30 Jun. 2018	Share 31 Dec. 2017
Germany	69.2 %	70.9 %
Western Europe (excluding Germany)	19.2 %	17.9 %
North America	6.6 %	6.2 %
Asia/Pacific	2.6 %	2.3 %
Eastern Europe	0.8 %	0.7 %
Latin America	0.7 %	0.6 %
Africa	0.1 %	0.1 %
Other[1]	0.9 %	1.2 %
Total	*100.0 %*	*100.0 %*

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

There were both highlights and lowlights in the first half of 2018. A definite wave of growth was paired with a rise in trade conflict. As a result, higher capital market volatilities led to greater uncertainty, which also manifested in Italy, for example. LBBW is standing by its strict policy of scaling back exposure in Italy. As part of the early warning process, scenarios were devised and potential consequences of trade conflicts for LBBW were examined.

With high growth on the global economy, the price of oil ended its decline, which benefited oil-producing countries but did not help oil-importing countries. Consequently, the international liquidity situation worsened in several countries. While this development confirmed LBBW's already restrictive business policy in some countries – in Turkey especially, country limits have already been replaced by new business windows and transaction opportunities have been minimized for several months – further adjustment by partially suspending country limits was required in others, such as Argentina.

Size classes

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

Size classes

Net exposure	Number 30 Jun. 2018	Net exposure in % 30 Jun. 2018	Number 31 Dec. 2017	Net exposure in % 31 Dec. 2017
Up to EUR 10 million	713,457	11.4 %	730,149	11.9 %
Up to EUR 50 million	1,147	13.6 %	1,144	14.1 %
Up to EUR 100 million	259	9.8 %	245	9.8 %
Up to EUR 500 million	287	33.7 %	291	35.7 %
Up to EUR 1 billion	43	15.4 %	40	15.7 %
Over EUR 1 billion	18	16.0 %	13	12.9 %
Total	*715,211*	*100.0 %*	*731,882*	*100.0 %*

The size classes up to a net exposure of EUR 100 million account for 35 % of the net exposure (previous year: 36 %). The large number of customers is due in particular to the retail portfolio.

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

The number of exposures with a net exposre in excess of EUR 1 billion rose from 13 in the previous year to 18 overall, driving their share of the portfolio up by three percentage points to 16 %. The increase has affected financials in particular, which therefore dominate this size class as at 30 June 2018 with a share of 56 %, while corporates account for a further 25 % and the public sector (German non-central public sector entities) for 19 %. These are counterparties with exclusively very good to good ratings (minimum rating class 1 (A-) and one with the rating class 2). The large exposures will continue to be monitored closely in the interests of managing cluster risks.

Opportunities

Potential for growth lies in LBBW's high risk-bearing capacity and strong capital situation. This is supported by favorable funding compared to its peers.

LBBW's core business activity involves assuming counterparty risks. Appropriate consideration is given to these risks in pricing. Selecting transactions with a favorable risk/return ratio offers special opportunities for profit. Furthermore, a positive trend above expectations in the economic situation in the core markets may offer an opportunity to improve the quality of the portfolio, thus resulting in persistently low write-down requirements. Business potential can be increased and higher margins generated through process optimization and potentially more attractive future interest rates.

LBBW feels it is well positioned in a challenging market environment with its four strategic cornerstones of business focus, digitalization, sustainability and agility.

Market price risks

Risk situation of the LBBW Group

The LBBW Group's market price risk declined significantly in the first half of 2018.

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

VaR 99 %/10 days

EUR million	Average	Maximum	Minimum	30 Jun. 2018	31 Dec. 2017
LBBW Group	**117**	**152**	**86**	**96**	**142**
Swap risk	60	83	39	56	64
Credit spread risk	94	126	68	73	120
Equity risks	7	10	4	8	4
Currency risks	1	2	1	1	1

The drop in risk at Group level was largely on account of the new, long-term representation of pension obligations in line with actuarial expected maturities.

In order to take more volatile market phases into account as well, LBBW calculates economic capital from the maximum of VaR (covariance matrix from a 250-day history) and the long-term VaR. Long-term VaR is based on two observation periods of five years each, which also include crisis periods and more volatile market phases. This enhances the resilience of the calculated economic capital against crises.

The internal risk model for calculating LBBW's exposure to market price risks has been approved by the regulatory authorities for equity risks and 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. The backtesting of clean P/L of the internal risk model for the previous 250 trading days gave rise to five exceptions for the LBBW Group. These five exceptions occurred in May and June 2018, and each related to the political developments in Italy (formation of a government). This led to a widening of credit spreads on Italian government bonds and to changes in the financial, industrial and euro yield curves. There was one exception for the CRR portfolio in June, also on account of the developments in Italy. Additional backtesting on the basis of dirty P/L[1] is performed on account of regulatory requirements. On this basis, there were two exceptions for the LBBW Group as at the end of the reporting period. One of these was caused by developments in Italy, the other by a strong market movement following a comment by a source at the ECB regarding its quantitative easing program. There were five exceptions in the CRR portfolio in the past 250 trading days, four of which were in the second half of 2017. One exception occurred in May 2018 and was triggered by volatile markets on account of uncertainty over developments in Italy.

Changes in the value of portfolios due to the stress scenarios developed differently in the first half of 2018. There are various reasons for the changes, such as the new representation of pension obligations and changes in positions. The stress test scenarios are monitored on an ongoing basis and adapted to current market conditions as necessary. The scenarios are also reviewed for adequacy annually, particularly in the light of current portfolio and market developments.

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

There was also a decline in market price risk in the Bank's trading book, largely as a result of the reduction of securities.

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

VaR 99 %/10 days

EUR million	Average	Maximum	Minimum	30 Jun. 2018	31 Dec. 2017
Trading book	**12**	**18**	**10**	**11**	**16**
Swap risk	6	9	4	6	6
Credit spread risk	9	17	7	7	15
Equity risks	7	10	4	8	4
Currency risks	1	2	1	1	1

Opportunities

The portfolios of the LBBW Group depend to a considerable extent on the development of credit spreads. A narrowing of the relevant credit spreads from their current status has a positive effect on the LBBW Group's net income from remeasurement. The extent of this effect depends on the development of the LBBW Group's portfolio. Furthermore, interest rate developments also affect various portfolios and the amount of pension provisions. Performance can differ depending on the positioning/orientation of the portfolio and interest rate developments.

Liquidity risks

Risk situation of the LBBW Group

The liquidity situation of the LBBW Group was comfortable at all times in the first half of 2018. Customer deposit business enjoyed the steady performance that was desired and capital market placements – both covered and uncovered – attracted brisk interest among national and international investors. The LBBW Group's sources of funding are very stable in terms of volume and diversification.

Funding requirements and counterbalancing capacity broke down as follows as at 30 June 2018:

Overview of funding requirements and counterbalancing capacity

EUR billion as at 30 June 2018	3 months	12 months
Funding requirement from the business portfolio (deterministic cash flow)[1]	– 5.1	– 7.4
Material call risks (stochastic cash flow)	15.2	30.3
Liquidity buffer	18.3	23.1
Counterbalancing capacity on the market	43.6	58.3

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

The funding requirement from the business portfolio is negative as at the end of the reporting period as liquidity inflows exceeded the funding requirements and thus reduced the overall funding requirement. Counterbalancing capacity was sufficient to compensate for any short-term liquidity outflows and still ensures very high overcollateralization over a three and 12-month horizon. In the view of 12 months, the surplus cover from cover registers not required to preserve the covered bond rating is applied towards the free liquidity reserves. Funding potential in the market is approximated on the basis of historical data on the unsecured funds actually raised.

The intended stress resistance level was maintained throughout the first half of 2018. 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 counterbalancing capacity via the market, plus the free liquidity buffer, always comfortably exceeds the potential funding requirements under stress scenarios for this period.

Results of the economic stress scenarios

Scenario EUR billion as at 30 June 2018	Funding requirements (3 months)	Counterbalancing capacity (central banks and market) (3 months)
Rating downgrade	13.4	37.8
Financial market crisis	13.6	49.7
Market crisis with downgrade	13.7	45.3

The required minimum of 100 % for the European liquidity coverage ratio (LCR) was complied with. The Group's LCR was 144.6 % as at 30 June 2018 (31 December 2017: 145.8 %).

Opportunities
We expect the LBBW Group's liquidity situation will be comfortable in the second half of the year as well. In the first half of the year, and as in previous years, LBBW was offered more funds on the money and capital markets than currently required to fund the Group. The broad and well-diversified funding basis would allow LBBW to raise far more in terms of funding resources at any time. The range of refinancing instruments was added to once again in the first half of the year (issue of the green bond and sterling mortgage bonds). We expect that the ECB will continue to pursue an expansionary monetary policy as the year progresses, thus providing ample liquidity for the money and capital markets. It is our opinion that even the end of the current quantitative easing program will not alter this situation in the short term. Investors remain very interested in the LBBW Group's funding products. At the moment, there are thus still no discernible restrictions on the future performance of the LBBW Group from the funding side of the balance sheet.

Operational risks

Risk situation of the LBBW Group
The comments on the risk situation as at the end of 2017, in particular in connection with the legal risks arising from customer transactions involving complex derivatives and developments in consumer protection law in addition to the partial application of principles developed for consumers to commercial clients, continue to apply. Due to the ongoing development of banking case law, the banking landscape will continue to face legal risks. LBBW takes this into account by monitoring the legal situation on an ongoing basis. On the basis of current knowledge, adequate provision has been made to cover any resulting legal risks.

As at the end of 2017, there are still tax law risks concerning the requirements for deducting capital gains tax. The Federal Ministry of Finance recently passed an administrative order on these issues. An updated legal opinion with retrospective effects on the basis of new case law or new proclamations and a detailed review by the tax authorities cannot be ruled out.

The LBBW Group's processes and instruments for identifying, recognizing 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 new requirements into account and to collect the necessary data. In addition, various committees regularly share information.

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

Opportunities
There has been no change in LBBW's assessment of its opportunities since the end of 2017.

Other material risks

The pension risk entails the possible need to increase pension provisions on account of higher anticipated pension expenses and measurement effects in particular. This is largely due to developments in interest rates, pensions and salaries.

Pension risks were fully shown under other risks as at the end of 2017. The aggregate amount of economic capital committed for pension risk as a component of other risks was reduced significantly as at 30 June 2018. This is due to the ongoing refinement of methods, whereby interest and credit spread risk was integrated into market price risk. The other risk factors for pension risk are still allocated to other risks.

Regarding the other material risks, namely

- investment risks
- real estate risks
- development risks
- reputation risks
- business risks
- model risk

the statements made in the risk report in the LBBW Group's combined management report for 2017 continue to apply. There were no material changes in the first half of 2018.

Outlook

Anticipated economic performance

The economic outlook for the second half of the year is positive but fraught with considerable risks. Despite the recent downward trend, economic confidence in the euro area remains at a historically high level, and in Germany the Ifo business climate is 4.4 points above its long-term average. The significantly higher price of crude oil of around USD 75 per barrel notwithstanding, the general conditions for the German economy are also good because the financing costs for the public sector and companies are low and employment is at a record high level. Inflation risks are also moderate. However, political risks have increased noticeably at European and global level. In particular, a further escalation of the trade conflict with the US poses a substantial threat to the export-oriented economy of Germany and Baden-Württemberg. This is all the more true because the automotive industry, as a key industry, is struggling with the threat of bans on diesel vehicles. There are further potential risks stemming from a divide within the EU over the migration debate and the failure of Brexit negotiations between the EU and the UK. Economic prospects in the US remain very good thanks to the tax reform. Against this backdrop, the US Federal Reserve is expected to implement two further interest rate hikes in the second half of the year. Overall, the growth of the global economy is set to accelerate slightly from 3.7 % in 2017 to 3.8 % in 2018 thanks to the strength of the US economy. GDP growth in Germany will likely slow from 2.5 % to 1.9 % (after adjustment for calendar effects). LBBW expects euro area inflation to average at 1.9 % for 2018.

In this environment, the ECB is likely to continue the gradual exit from its ultra-loose monetary policy and suspend net asset purchases at the end of the year. However, the ECB's Governing Council will postpone the debate on a turnaround in interest rates until well into the coming year. LBBW expects to see the first rise in the deposit rate in autumn 2019. The gradual change in monetary policy is unlikely to cause major turbulence on the capital market, and long-term interest rates should rise moderately on the back of the ongoing economic upswing. LBBW is forecasting a yield on 10-year Bunds of 0.60 % at the end of 2018. As the interest rate advantage in the US continues to widen following the Fed's rate hike, the US dollar will continue its rising trend. LBBW is forecasting a price of USD 1.12 to the euro by the end of the year.

In the months ahead, the ongoing development of political risks will likely to have a critical impact on both the economy of the euro area and investor behavior. Protectionist tendencies in the US are likely to persist, as is the elevated uncertainty over the political situation in Italy. LBBW is assuming in its forecasts that the trade dispute can be defused through negotiation. Also, Italy's new government will presumably be unable to keep its most expensive election promises, and so there will not be a massive increase in the country's budget deficit.

Industry and competitive situation

In light of growing political risks, and in particular the possibility of an escalation in the trade dispute, the German and the European economic engine is expected to ease off – but not come to a halt – as the year progresses. Thus, the economic tailwind for the banking industry is expected to diminish somewhat as well.

Nonetheless, LBBW feels that the German banking system still has a fundamentally solid footing, with high asset quality and adequate capital resources. However, the consistently high level of competitive intensity and the environment of low and negative interest rates is expected to continue to squeeze profitability. In addition, there is the continued pressure of regulatory requirements, which will further add to uncertainty and stress in the coming months. Furthermore, technological change is increasingly gathering momentum, thus requiring the adjustment of existing business models.

Higher investment in digitalization and a combination of a reduced cost base and a wider product range to increase profitability are therefore still on the agenda for the banking industry.

Company forecast

Initial situation and general conditions

The statements made by LBBW in the company forecast in the Group management report for 2017 regarding its projections for the 2018 financial year were based on the budget prepared at the end of 2017. They reflect the expectations for the 2018 financial year based on projected figures as compared to those figures as at the end of 2017.

These comments were reviewed after the first half of 2018 based on LBBW's forecast for the remaining months of the 2018 financial year. The resulting deviations from the original expectations based on the forecast figures are presented below.

Planning has already taken into account the provisions of IFRS 9 effective from 2018, including the adjustments to the structure of the income statement and the performance indicators return on equity and cost/income ratio.

For 2018, interest rates are expected to be low, albeit rising slightly, with a positive economic development in Germany and the euro area. Contrary to its previous planning, LBBW now does not expect the turnaround in key interest rates in the euro area until autumn 2019, which will have a correspondingly negative impact on net interest income. LBBW still assumes a positive economic development in Germany and the euro area, but is projecting somewhat lower GDP growth rates and higher risks to economic trends. Nonetheless, LBBW expects that the economic situation on its core markets will remain stable with a correspondingly positive effect on loss allowances.

Outlook for LBBW

The competitive intensity of the German banking market will likely remain at a high level and continue to bring pressure on margins and growth momentum.

LBBW's most significant key financial performance indicators at the Group level are expected to develop as follows as against the original planning as at the end of the 2018 financial year:

Despite the competitive situation, the volume growth in core business areas planned for the 2018 financial year should be achieved in Corporate Customers and Real Estate/Project Finance, with the result that ***total assets*** will reach the planned level at the end of 2018. Business in Corporate Customers will likely even moderately outperform forecasts. ***Risk-weighted assets in accordance with CRR/CRD IV*** are expected to be slightly higher than the planned level by the end of 2018. As a result, LBBW expects moderately lower values for its ***common equity tier 1 capital ratio*** and ***total capital ratio*** (each fully loaded). Nonetheless, it should continue to exceed CRR/CRD IV minimum requirements considerably. LBBW is also set to considerably surpass its individual common equity tier 1 capital ratio (fully loaded) of 8.80% set by the European Central Bank and valid from 2018 under the Supervisory Review and Evaluation Process (***SREP***). This ratio includes the Pillar 2 capital requirement and the common equity Tier 1 capital to be maintained as a capital conservation buffer in accordance with section 10c of the German Banking Act (KWG) and as a capital buffer in accordance with section 10g KWG for other systemically important institutions. Even taking into account the extra countercyclical capital buffer to be maintained in accordance with section 10d KWG for a marginal share of foreign receivables and the availability of additional common equity Tier 1 capital expected by ECB supervisory authorities in the Pillar 2 Guidance capital recommendation, requirements should be exceeded significantly. Taking into account the expected development in total assets, the ***leverage ratio*** – a regulatory figure independent of risk – should also reach the planned level at the end of 2018, which is considerably higher than the minimum level of 3% stipulated by the Basel Committee. The ***liquidity coverage ratio*** should outperform the minimum regulatory target of 100% as at the end of 2018 as well. LBBW also expects that the

utilization of aggregate risk cover will be slightly lower than planned as at the end of 2018 as a result of the ongoing development of its methodology, which also had an effect in the first half of the year. Thus, LBBW should be able to maintain its very comfortable risk-bearing capacity situation and ensure solid capitalization at all times.

In a challenging market environment characterized by persistently low interest rates and consistently high competitive intensity, LBBW anticipates a *consolidated profit before tax* for the 2018 financial year slightly below its projected level. Above all, net interest income will be slightly lower than planned as a result of expected interest rate developments and the competitive situation. Net fee and commission income is also set to fall slightly short of planning. By contrast, LBBW is likely to benefit from its good credit portfolio quality and the continued stability of the economic situation on its core markets. Provided that the existing risks do not weigh more heavily on the economy than expected over the remainder of the year, loss allowances should remain significantly below the planned level. Administrative expenses are also expected to be marginally less than planned thanks to stringent cost control in staff costs and costs of materials. By contrast, the expenses for the bank levy and deposit guarantee system will perceptibly exceed planning on account of the higher payments throughout the industry, reducing consolidated profit before tax as compared to planning. The *return on equity* for the 2018 financial year is expected to be marginally less than planned on account of the projected development in earnings. The *cost/income ratio* will virtually achieve the planned level in line with the expected developments in cost and income.

Over the remainder of the 2018 financial year, the statements made could be positively or negatively affected by the *risks and opportunities* described below: The material risks and opportunities for the business development of LBBW described as at the end of 2017 in principle continue to apply. However, LBBW considers the political risks to be higher again overall than at the end of 2017. For example, negative effects on the export-oriented economy of LBBW's core markets could arise from the trade conflict with the US, or on the automotive industry from the threat of driving bans. In addition, negative repercussions could also result from the migration debate in the EU, the failure of Brexit negotiations and political developments in Italy. If such risks occur, this could have negative implications for LBBW's earnings and other financial performance indicators.

The *operating segments* of LBBW should develop as follows compared to original planning over the remaining months of the 2018 financial year:

Although the growth in volume is now set to exceed planning, LBBW expects the earnings before tax of the *Corporate Customers segment* to be perceptibly lower than forecast for the 2018 financial year. Net interest income will likely be slightly lower than planned as a result of expected interest rate developments and the ongoing intensity of competition. The volume expansion anticipated in spite of the high level of competition will presumably only partially offset this. Net fee and commission income, which is now expected to be substantially lower than planned, will also have a negative effect. By contrast, the effects of the good credit portfolio quality and the stable economic situation on LBBW's core markets for Corporate Customers will still be felt, with the result that loss allowances in this segment will be far below the forecast figure. The segment's results will be further squeezed by higher expenses, above all for the bank levy. The cost/income ratio for the 2018 financial year should be slightly higher than planned in line with the developments in costs and income. The anticipated volume expansion will be reflected in total assets and risk-weighted assets in accordance with CRR/CRD IV, which will both be moderately higher than planned as at the end of 2018. In line with the forecast development in earnings and higher risk-weighted assets, the return on equity will presumably be perceptibly lower than planned for the 2018 financial year.

LBBW expects the earnings before tax of the *Real Estate/Project Finance* segment to be in line with planning for the 2018 financial year. Given the expected interest rate developments and the only gradual growth in business, net interest income will be slightly lower than planned. By contrast, net fee and commission income should slightly outperform planning. The effects of the good credit portfolio

quality and the stable economic situation on LBBW's core markets will also be reflected in the Real Estate/Project Finance segment, with the result that loss allowances in this segment will also be significantly below the planned figure. In turn, the segment's results will be reduced by higher expenses, above all for the bank levy. The cost/income ratio for the 2018 financial year should be marginally lower than planned on account for the forecast development in income. Risk-weighted assets in accordance with CRR/CRD IV are expected to be perceptibly higher than planned by the end of the year. In addition to new business, which is expected to lead to higher risk-weighted assets compared to planning despite the consistent level of quality, this expectation is also based on methodological refinements to rating procedures. By contrast, total assets will presumably not deviate significantly from planning. In line with the forecast higher risk-weighted assets, the return on equity will likely be slightly lower than planned for the 2018 financial year.

LBBW expects the earnings before tax of the *Capital Markets Business segment* to be perceptibly lower than forecast for the 2018 financial year. The main reasons for this are widening credit spreads on bonds held for customer business, margin pressure and a lack of customer business in interest rate derivatives. In addition, the persistently low interest rate environment will likely stifle earnings expectations in Capital Markets Business, particularly in terms of proprietary investment. This segment's results will also be squeezed by higher expenses, above all for the bank levy. The cost/income ratio for the 2018 financial year should be slightly higher than planned in line with the developments in costs and income. As at the end of 2018, risk-weighted assets in accordance with CRR/CRD IV are expected to be slightly higher than planned, with total assets virtually at the planned level. The return on equity for the 2018 financial year should be perceptibly less than planned in line with the projected development in earnings.

LBBW is still forecasting that the *Private Customers/Savings Banks segment* will report slightly positive earnings before tax for the 2018 financial year. Net interest income is set to be slightly lower than planned on account of the forecast interest rate developments and as a result of volume growth falling short of expectations. Net fee and commission income should approximately reach the planned level. In this segment as well, loan allowances are likely to be considerably less than planned. In addition, administrative expenses will presumably be moderately less than forecast, more than offsetting higher expenses for the bank levy and deposit guarantee system. By contrast, the cost/income ratio for the financial year is not expected to deviate significantly from planning in line with the contrary developments in costs and income. The lower than forecast volume growth will likely be reflected in total assets far below planning and moderately lower risk-weighted assets in accordance with CRR/CRD IV. In line with the forecast earnings development and the lower volume expansion than expected, the return on equity for the 2018 financial year should be perceptibly higher than planned.

In its *HGB annual financial statements* for the 2018 financial year, *LBBW (Bank)* is expecting *net income for the year before taxes* slightly below the forecast figure. This development is essentially in line with IFRS consolidated profit/loss before tax.

03

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Condensed consolidated interim financial statements

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Condensed income statement

for the period 1 January to 30 June 2018

EUR million	Notes	1 Jan. – 30 Jun. 2018	1 Jan. – 30 Jun. 2017[1]
Interest income and current income from equity instruments		6,915	6,118
Interest expense and current expenses from equity instruments		– 6,119	– 5,321
Net interest income	4	796	797
Fee and commission income		325	328
Fee and commission expense		– 64	– 59
Net fee and commission income	5	262	270
Net gains/losses on remeasurement and disposal	6	135	191
of which allowances for losses on loans and securities[2]		– 33	– 40
Other operating income/expenses	7	58	56
Administrative expenses	8	– 878	– 897
Expenses for bank levy and deposit guarantee system		– 89	– 69
Guarantee commission for the State of Baden-Württemberg		0	– 38
Net income/expenses from restructuring	9	0	– 30
Consolidated profit/loss before tax		*282*	*279*
Income taxes	10	– 77	– 77
Net consolidated profit/loss		***206***	***201***
of which attributable to non-controlling interests after tax		0	2
of which attributable to shareholders after tax		206	200

1 The previous year's figures based on IAS 39 were transferred to the structure of the IFRS 9 scheme without adjustments.
2 Relates to the category »Financial assets measured at amortized cost«.

Statement of comprehensive income

for the period 1 January to 30 June 2018

EUR million	Notes	1 Jan. – 30 Jun. 2018
Net consolidated profit/loss		*206*
Net consolidated profit/loss in equity		
Items that will not be transferred subsequently to the income statement		
Retained earnings		
Actuarial gains/losses before tax		– 4
Income taxes	10	1
Measurement gains/losses from own credit rating		
Measurement gains/losses from own credit rating before tax		2
Income taxes	10	– 1
Measurement gains/losses from equity instruments (financial assets measured at fair value through other comprehensive income)		
Measurement gains/losses before tax		– 38
Items that will be transferred subsequently to the income statement when specific conditions are met		
Measurement gains/losses from debt instruments (financial assets measured at fair value through other comprehensive income)		
Measurement gains/losses before tax		– 107
Transferred to income statement		1
Income taxes	10	31
Currency translation differences		
Changes before tax		2
Total net consolidated profit/loss in equity		*– 112*
Net consolidated total comprehensive income		*94*
of which attributable to shareholders after tax		93

for the period 1 January to 30 June 2017

EUR million	Notes	1 Jan. – 30 Jun. 2017
Net consolidated profit/loss		*201*
Net consolidated profit/loss in equity		
Items that will not be transferred subsequently to the income statement		
Retained earnings		
Actuarial gains/losses before tax		108
Income taxes	10	– 32
Measurement gains/losses from own credit rating		
Measurement gains/losses from own credit rating before tax		– 13
Income taxes	10	4
Items that will be transferred subsequently to the income statement when specific conditions are met		
Revaluation reserve		
Gains/losses on AfS financial assets before tax		72
Transferred to income statement		– 90
Income taxes	10	12
Currency translation differences		
Changes before tax		– 6
Total net consolidated profit/loss in equity		*54*
of which from non-current assets held for sale and disposal groups		– 1
Net consolidated total comprehensive income		*256*
of which attributable to non-controlling interests after tax		2
of which attributable to shareholders after tax		254

Balance sheet

as at 30 June 2018

Assets

EUR million	Notes	30 Jun. 2018	31 Dec. 2017[1]
Cash and cash equivalents	11	32,522	22,729
Financial assets measured at amortized cost	12	166,177	157,494
Loans and advances to banks		55,716	48,179
Loans and advances to customers		109,213	107,652
Debentures and other fixed-income securities		1,248	1,663
Financial assets measured at fair value through other comprehensive income	13	23,045	21,185
Financial assets designated at fair value	14	967	732
Financial assets mandatorily measured at fair value through profit or loss	15	30,386	30,654
Shares in investments accounted for using the equity method	16	266	245
Portfolio hedge adjustment attributable to assets		555	606
Non-current assets held for sale and disposal groups	17	7	104
Intangible assets	18	226	244
Investment property	19	699	554
Property and equipment	20	460	482
Current income tax assets		82	92
Deferred income tax assets		1,084	1,016
Other assets	21	2,055	1,575
Total assets		*258,530*	*237,713*

1 The previous year's figures based on IAS 39 were transferred to the structure of the IFRS 9 scheme without adjustments.

Equity and liabilities

EUR million	Notes	30 Jun. 2018	31 Dec. 2017[1]
Financial liabilities measured at amortized cost	22	208,132	191,105
Deposits from banks		72,710	61,895
Deposits from customers		87,282	79,415
Securitized liabilities		42,785	44,432
Subordinated capital		5,355	5,364
Financial liabilities designated at fair value	23	6,933	2,726
Financial liabilities mandatorily measured at fair value through profit or loss	24	24,819	25,196
Portfolio hedge adjustment attributable to liabilities		252	239
Provisions	25	3,812	3,796
Current income tax liabilities		41	47
Deferred income tax liabilities		28	28
Other liabilities	26	1,417	1,199
Equity	**27**	**13,095**	**13,377**
Share capital		3,484	3,484
Capital reserve		8,240	8,240
Retained earnings		1,017	820
Other comprehensive income		123	371
Unappropriated profit/loss		206	416
Shareholders' equity		**13,070**	**13,331**
Equity attributable to non-controlling interests		25	46
Total equity and liabilities		*258,530*	*237,713*

1 The previous year's figures based on IAS 39 were transferred to the structure of the IFRS 9 scheme without adjustments.

Statement of changes in equity

for the period 1 January to 30 June 2018

EUR million	Share capital	Capital reserve	Retained earnings	Valuation reserve for equity instruments	Valuation reserve for debt instruments
Equity as at 31 December 2017	*3,484*	*8,240*	*820*	*345*	*– 52*
Reclassification of opening balances due to adoption of IFRS 9	0	0	125	– 80	0
IFRS 9 effects of first-time adoption	0	0	– 167	0	8
IFRS 15 effects of first-time adoption	0	0	2	0	0
Adjusted equity as at 1 January 2018	*3,484*	*8,240*	*779*	*266*	*– 43*
Allocation to retained earnings	0	0	416	0	0
Distribution to shareholders	0	0	– 173	0	0
Capital increase/capital decrease	0	0	0	0	0
Changes in the scope of consolidation	0	0	0	0	0
Net consolidated profit/loss in equity	0	0	– 3	– 38	– 75
Net consolidated profit/loss	0	0	0	0	0
Net consolidated total comprehensive income	*0*	*0*	*– 3*	*– 38*	*– 75*
Other changes in equity	0	0	– 2	0	0
Equity as at 30 June 2018	*3,484*	*8,240*	*1,017*	*227*	*– 118*

Measurement gains/losses from investments accounted for using the equity method	Measurement gains/losses from own credit rating	Currency translation reserve	Unappropriated profit/loss	Shareholders' equity	Equity attributable to non-controlling interests	Total
44	*11*	*23*	*416*	*13,331*	*46*	*13,377*
- 44	0	- 2	0	0	0	0
0	- 21	0	0	- 180	0	- 180
0	0	0	0	2	0	2
0	*- 11*	*21*	*416*	*13,152*	*46*	*13,198*
0	0	0	- 416	0	0	0
0	0	0	0	- 173	0	- 173
0	0	0	0	0	8	8
0	0	0	0	0	- 30	- 30
0	1	2	0	- 113	0	- 113
0	0	0	206	206	0	206
0	*1*	*2*	*206*	*93*	*0*	*94*
0	0	0	0	- 2	1	- 1
0	*- 9*	*23*	*206*	*13,070*	*25*	*13,095*

for the period 1 January to 31 December 2017

EUR million	Share capital	Capital reserve	Retained earnings
Equity as at 1 January 2017	*3,484*	*8,240*	*1,014*
Allocation to retained earnings	0	0	9
Distribution to shareholders	0	0	– 219
Capital increase/capital decrease	0	0	0
Changes in the scope of consolidation	0	0	0
Actuarial gains/losses	0	0	76
Measurement gains/losses from own credit rating	0	0	0
Measurement gains/losses in AfS financial instruments	0	0	0
Currency translation differences	0	0	0
Net consolidated profit/loss in equity	***0***	***0***	***76***
Net consolidated profit/loss	***0***	***0***	***0***
Net consolidated total comprehensive income	***0***	***0***	***76***
Other changes in equity	0	0	– 1
Equity as at 30 June 2017	*3,484*	*8,240*	*879*
Capital increase/capital decrease	0	0	0
Changes in the scope of consolidation	0	0	1
Actuarial gains/losses	0	0	– 61
Measurement gains/losses from own credit rating	0	0	0
Measurement gains/losses in AfS financial instruments	0	0	0
Measurement gains/losses from investments accounted for using the equity method	0	0	0
Currency translation differences	0	0	0
Net consolidated profit/loss in equity	***0***	***0***	***– 61***
Net consolidated profit/loss	***0***	***0***	***0***
Net consolidated total comprehensive income	***0***	***0***	***– 61***
Other changes in equity	0	0	0
Equity as at 31 December 2017	*3,484*	*8,240*	*820*

Revaluation reserve	Measurement gains/losses from investments accounted for using the equity method	Measurement gains/losses from own credit rating	Currency translation reserve	Unappropriated profit/loss	Shareholders' equity	Equity attributable to non-controlling interests	Total
247	*42*	*24*	*35*	*10*	*13,096*	*38*	*13,134*
0	0	0	0	- 10	1	- 1	0
0	0	0	0	0	- 219	0	- 219
0	0	0	0	0	0	2	2
0	0	0	0	0	0	1	1
0	0	0	0	0	76	0	76
0	0	- 9	0	0	- 9	0	- 9
- 6	0	0	0	0	- 6	0	- 6
0	0	0	- 6	0	- 6	0	- 6
- 6	*0*	*- 9*	*- 6*	*0*	*54*	*0*	*54*
0	*0*	*0*	*0*	*200*	*200*	*2*	*201*
- 6	*0*	*- 9*	*- 6*	*200*	*254*	*2*	*256*
0	0	0	0	0	- 1	1	0
241	*42*	*15*	*29*	*200*	*13,131*	*43*	*13,174*
0	0	0	0	0	0	2	2
0	0	0	0	0	1	0	1
0	0	0	0	0	- 61	0	- 61
0	0	- 4	0	0	- 4	0	- 4
52	0	0	0	0	52	0	52
0	2	0	0	0	2	0	2
0	0	0	- 6	0	- 6	0	- 6
52	*2*	*- 4*	*- 6*	*0*	*- 16*	*0*	*- 16*
0	*0*	*0*	*0*	*216*	*216*	*0*	*218*
52	*2*	*- 4*	*- 6*	*216*	*200*	*0*	*200*
0	0	0	0	0	0	- 1	- 1
293	*44*	*11*	*23*	*416*	*13,331*	*46*	*13,377*

Condensed cash flow statement

for the period 1 January to 30 June 2018

EUR million	Notes	1 Jan. – 30 Jun. 2018	1 Jan. – 30 Jun. 2017
Cash and cash equivalents at the beginning of the period	*11*	*22,729*	*13,532*
Cash flow from operating activities		10,068	12,028
Cash flow from investing activities		– 68	87
Cash flow from financing activities		– 80	– 266
Changes to cash and cash equivalents owing to exchange rates, basis of consolidation and measurement		– 128	69
Cash and cash equivalents at the end of the period	*11*	*32,522*	*25,449*

In addition to the cash change in equity (dividend payment), cash flow from financing activities includes the cash flows from the silent partners' contributions and additional subordinated capital. During the period under review, the volume of subordinated capital held fell by EUR 9 million from the previous year. In addition to the cash increase of EUR 93 million, the change resulted from measurement effects of EUR – 17 million and the change in deferred interest of EUR – 39 million. Furthermore, elements of subordinated capital have been reclassified to designated at fair value as a result of the first-time adoption of IFRS 9. This reclassification reduced the amount of subordinated capital measured at amortized cost by a further EUR 46 million.

Selected notes to the consolidated interim financial statements

for the first half of the 2018 financial year

Basis of Group accounting

Landesbank Baden-Württemberg (LBBW (Bank)), as the parent company of the Group (LBBW), is a public law institution (rechtsfähige Anstalt des öffentlichen Rechts) with 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.

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

The consolidated interim financial statements of LBBW as at 30 June 2018 were prepared in accordance with section 115 of the *Wertpapierhandelsgesetz* (WpHG – German Securities Trading Act) in conjunction with section 117 no. 2 WpHG pursuant to the International Financial Reporting Standards (IFRS) and their interpretations (SIC, IFRIC) as adopted in the European Union. The standards and interpretations published at the time of preparation of the financial statements, adopted by the European Union and relevant and effective for the Group, are authoritative. In particular, the requirements set out in IAS 34 Interim Financial Reporting were taken into account.

Accounting policies

1. Accounting principles

In accordance with IAS 34.8, the consolidated interim financial statements as at 30 June 2018 do not contain all the information and disclosures required of the consolidated financial statements and should therefore be read in conjunction with the consolidated financial statements as at 31 December 2017. The same Group-wide accounting policies are applied as those in the consolidated financial statements as at 31 December 2017.

Accounting policies for financial instruments have changed significantly on account of the first-time adoption of IFRS 9 (formerly IAS 39). Furthermore, key accounting policies and management discretion applied in the preparation of these consolidated interim financial statements have been explained in detail in notes 1 and 2. Information on the basis of consolidation can be found in note 3. Notes on segment reporting are followed by details of the individual items of the income statement and the balance sheet (notes 4 to 27). Information on financial instruments and other information are provided in notes 2 to 36.

Unless stated otherwise, the accounting policies were applied uniformly and consistently to the reporting periods shown. All consolidated companies and investments accounted for using the equity method have prepared their interim financial statements as at 30 June 2018. The reporting currency is euro (EUR). The amounts reported in the balance sheet and the income statement are generally rounded to millions of euro in accordance with commercial principles. This may result in minor aggregation differences, though these do not have any adverse effect on the quality of reporting.

2. Changes and estimates

IFRS applied for the first time

LBBW applied the following standard for the first time in the 2018 financial year:

IAS 20 – Accounting for Government Grants and Disclosure of Government Assistance

The LBBW Group recognized the ECB's »targeted longer-term refinancing operations II« that, if certain conditions are met, bear interest at a rate below the market rate, in accordance with IAS 20. This benefit will only be recognized if there is reasonable assurance that the company will comply with the conditions attached and that the grant will be received. The benefit is recognized in profit or loss on an accrual basis over the periods in which the regular interest expenses on refinancing to be compensated by the grant are recognized. The LBBW Group uses the net presentation method, whereby grants reduce the reported interest expense.

The following IFRS were applied for the first time in the 2018 financial year:

IFRS 9 Financial Instruments/Prepayment Features with Negative Compensation – Amendments to IFRS 9

With the publication of IFRS 9 »Financial instruments« on 24 July 2014, the IASB has provisionally completed the reform of its accounting provisions for financial instruments. The endorsement was finalized on 29 November 2016 with the publication of IFRS 9 in the Official Journal of the European Union. The new provisions are described in detail in the 2016 annual report of LBBW Group.

In the 2016 financial year, LBBW already exercised the option of voluntary early adoption of the provisions on the presentation of gains and losses of financial liabilities at fair value through profit or loss. Aside from the new regulations on hedge accounting, the current financial year is the first time LBBW will apply the remaining requirements of IFRS 9.

As part of the first-time adoption of IFRS 9 Financial Instruments, LBBW is applying the IFRS »Prepayment Features with Negative Compensation – Amendments to IFRS 9« early. This amendment regulates that financial assets with an early repayment option, where the terminating party receives or pays appropriate compensation, can be measured at amortized cost or at fair value through other comprehensive income.

Accounting policies for financial instruments have in part changed substantially due to the first-time adoption of IFRS 9 and the Amendment described above. The most important changes in comparison to IAS 39 are explained in the section »Changes to accounting policies«.

Equity on the balance sheet decreased by EUR 180 million due to the first-time adoption of IFRS 9. This was essentially a result of a change in methodology for allowances for losses on loans and securities compared to IAS 39. The statements of reconciliation for the balance sheet and allowances for losses on loans and securities as at 1 January 2018 in accordance with IFRS 9 are shown under »first-time adoption of IFRS 9«.

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

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

The first-time adoption of this standard has no material effect on the consolidated financial statements.

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

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

A uniform, principle-based five-step model in accordance with the provisions of IFRS 15 is used to calculate the amount of fee and commission income and other income in the Group and its recognition in line with the accrual principle. Revenue is recognized on an accrual basis after performance as at a particular time or over a period of time.

The costs of fulfilling a contract are capitalized. Contract initiation costs, on the other hand, are capitalized when they are written down over more than one year.

There will be no changes to accounting resulting from the first-time adoption as LBBW has already taken items as defined in IAS 18 and IAS 11 into account in line with IFRS 15 regulations. One change will be made regarding selling expenses in the context of development projects, which are to be capitalized following the introduction of IFRS 15. Other than this, only additional disclosures in the notes are required.

Clarifications to IFRS 15

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

The clarifications made by the IASB were taken into consideration in the implementation of IFRS 15.

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

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

Given that LBBW's remuneration models do not fall within the scope of IFRS 2 »Share-based Payments«, it does not have any impact on the consolidated financial statements.

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

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

Given that LBBW's business does not fall within the scope of IFRS 4 »Insurance Contracts«, it does not have any impact on the consolidated financial statements.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

The IFRS Interpretations Committee's interpretation governs the translation of foreign currency transactions in the case of advance consideration paid or received and clarifies the exchange rate to be used.

The first-time adoption had no impact as LBBW already applies these principles.

Transfers of Investment Property – Amendments to IAS 40

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

The first-time adoption of this standard has no material effect on the consolidated financial statements.

IFRS to be applied in the future

The following IFRSs were not yet effective at the time these financial statements were approved for publication. Unless stated otherwise, these IFRS are already recognized in European law and LBBW does not intend to apply them early on a voluntary basis:

IFRS 16 Leases

This standard, effective as at 1 January 2019, contains the new requirements 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 largely as under IAS 17, the requirements for the lessees take a completely new approach that provides for the capitalization of the right of use and the recognition of the present value of future lease payments as a lease liability.

LBBW is anticipating an impact on former operating leases, in particular in the real estate sector, which will increase total assets as rights of use and lease liabilities in the future.

IFRIC 23 Uncertainty over Income Tax Treatments

IFRIC 23 clarifies uncertainty over income tax treatments. The clarification defines the issue at hand, assesses how likely it is to occur, calculates the specific tax values on which the accounting is based and considers new findings.

This change is expected to be effective for the first time in the 2019 financial year. The clarification confirms LBBW's internal approach and thus has no effect on the balance sheet: Income tax is assessed at the level of the individual item, taking any existing interactions into account if necessary. If it is probable that the tax treatment will be accepted, current and deferred taxes are calculated on this basis. If, however, there is uncertainty as to whether the tax treatment will be accepted (not probable), either the most likely amount which would be recognized for tax purposes or the expected value of the various scenarios will be used, depending on which estimate is most appropriate. A full understanding of the circumstances by the tax authorities is always assumed. Finally, the assumptions and decisions made are reviewed at the end of every reporting period and, if necessary, are adjusted to take new information into account. The standard had not yet been endorsed in European law at the date on which these financial statements were approved for publication.

Long-term Interests in Associates and Joint Ventures – Amendments to IAS 28

This standard governs the consideration of non-voting shares in other enterprises. These must be included in the analysis of material influence but will continue to be assessed in accordance with IFRS 9.

This change is expected to be effective for the first time in the 2019 financial year. The first-time adoption of this standard is not expected to have any material effect on the consolidated financial statements. The standard had not yet been endorsed in European law at the date on which these financial statements were approved for publication.

Annual Improvements to IFRS 2015 – 2017 Cycle – Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23

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 affect the recognition, measurement and reporting of assets and liabilities or the extent of disclosures.

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

Plan Amendment, Curtailment or Settlement – Amendments to IAS 19

This standard takes into consideration the measurement of pension obligations due to plan amendments, curtailment and settlement on the basis of updated assumptions.

This change is expected to be effective for the first time in the 2019 financial year. The impact of the first-time adoption of this standard is still being reviewed. The standard had not yet been endorsed in European law at the date on which these financial statements were approved for publication.

Amendments to References to the Conceptual Framework in IFRS Standards

This standard updates the references to the Conceptual Framework for Financial Reporting in IFRS Standards.

This change is expected to be effective for the first time in the 2020 financial year. The impact of the first-time adoption of this standard is still being reviewed. The standard had not yet been endorsed in European law at the date on which these financial statements were approved for publication.

IFRS 17 Insurance Contracts

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

These changes are expected to be effective for the first time in the 2021 financial year. The impact of the first-time adoption of this standard is still being reviewed. The standard had not yet been endorsed in European law at the date on which these financial statements were approved 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 clarifies 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. After this updated standard was published, however, it emerged that it is not fully consistent with the existing IFRS framework. For this reason, the IASB deferred the date of initial adoption indefinitely, to enable it to again review such transactions within the scope of a research project on the equity method. The process for endorsing this standard into European law was also deferred until further notice.

Therefore, no statement on the date of initial adoption or the effects of the first-time adoption 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.

Adjustments

As part of the first-time adoption of IFRS 9 it became apparent that maintaining the same level of detail for classifications would expand LBBW's financial reports considerably. Taking the IASB's Disclosure Initiative and the proposal that content to be disclosed focuses on relevant information for users of financial statements into consideration, LBBW has decided to avoid overloading future financial reports by placing a reasonable limit on the content to be published in accordance with IFRS 7 and IFRS 13 in the future. This will be achieved by using fewer, but more meaningful, classifications.

Changes to accounting policies

Since 1 January 2018, LBBW has applied the version of IFRS 9 »Financial Instruments« issued by the IASB on 24 July 2014. The standard is effective in the EU for financial years beginning on or after 1 January 2018.

In the 2016 financial year, LBBW already exercised the option of voluntary early application of the provisions on the presentation of gains and losses of financial liabilities at fair value through profit or loss.

Since 1 January 2018, LBBW has also applied the IFRS »Prepayment Features with Negative Compensation – Amendments to IFRS 9« early.

LBBW does not apply the new IFRS 9 regulations on hedge accounting. Instead, the decision was made to continue recognizing all hedges in accordance with the previous requirements of IAS 39.

With the exception of the changes in recognizing and measuring financial instruments detailed below, the accounting policies described in the 2017 annual report are also applied to the current financial year.

Initial measurement of financial instruments

Financial instruments are recognized at fair value. The initial value is only equal to the transaction price for trade receivables with no significant financing component. The transaction price is the amount which an entity expects to be entitled to in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.

Transaction costs for financial instruments measured at fair value through profit or loss are recognized directly in profit or loss. In all other cases, transaction costs – where material – are distributed on an accrual basis. Transaction costs include additional costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. These are costs that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Subsequent measurement of financial instruments

The subsequent measurement of financial assets is based on the classification decision at the time of addition. In accordance with IFRS 9, this decision incorporates the objectives of the business model for managing financial assets, an analysis of the contractually agreed cash flows and the exercise of classification options.

Business model

Financial assets at LBBW Group are managed at portfolio level. These portfolios follow different investment strategies. The business model of a portfolio provides information as to whether or not the assets in the portfolio will be held in the long term. LBBW Group has three business models: »Hold«, »Hold to collect and sell« and »Sell«.

The »Hold« business model means that the intention is to hold the assets of a portfolio for the foreseeable future and to collect the resulting cash flows over their term. Sales from these portfolios are not intended. Nevertheless, financial assets whose credit risk has increased since initial recognition could still be sold under a »Hold« business model. The same applies to sales made close to maturity, infrequent sales and sales involving smaller volumes. Sales from portfolios operating under the »Hold« business model are subject to an internal process which monitors holding intent. For this purpose, sales agreements with third parties under civil law are considered sales, which lead to the assets sold being derecognized from the balance sheet.

By contrast, the »Hold to collect and sell« business model does not involve the strict intention to hold the financial assets in a portfolio in the long term. In addition to collecting cash flows from the financial assets held, the assets can also be sold in line with the investment strategy of the portfolio.

The »Sell« business model comprises all investment strategies that do not fall under the other two models. In particular, this includes financial assets acquired for trading and shares of loans intended for syndication. In LBBW Group, loans intended for syndication are allocated to two portfolios with different business models. The part of the loan to be placed on the market is assigned to a »Sell« business model portfolio while the final take is assigned to a »Hold« portfolio. Syndicated loans for which placement was unsuccessful remain in the original »Sell« portfolio permanently.

Cash flows

The analysis of the contractually agreed cash flows looks at whether the financial asset represents a simple loan agreement, thus generating solely payments of principal and interest (SPPI) as defined in IFRS 9. For the purpose of classifying financial assets, the capital concept is defined not as the nominal value but as the fair value of the financial asset on initial recognition. The interest term also has its own definition for the purpose of classifying financial assets. It represents consideration for the provision of capital and can only include components which are also reflected in a simple credit agreement. These include:

- time value of money;
- credit risk premium;
- surcharges for other risks associated with a loan (e.g. liquidity risk);
- surcharge for costs associated with a loan (e.g. administrative costs); and
- profit margin.

Equity instruments and derivatives thus do not constitute financial assets comparable to a simple loan agreement. The same applies to debt instruments with embedded derivatives that generate leverage. However, non-leveraged interest rate caps embedded in debt instruments may be compatible with a simple loan agreement.

The analysis of the contractually agreed cash flows is subject to discretion. This applies in particular to LBBW's non-recourse financing. This includes financing of special investment vehicles, which are characterized by the limitation of LBBW's right of recourse to certain assets of the special investment vehicle or payments from these assets. At LBBW, this method of financing is therefore always in accordance with a simple loan agreement if either the special investment vehicle is able to service its debt without selling the financing object or if sufficient unimpaired collateral has been provided by third parties. As such financing is often tailored to the customer's specific investment projects, it is assessed taking into account all quantitative and qualitative information on the project in back office to reflect the special features of the respective financing when analyzing its cash flows. An analysis process that has been implemented and standardized at LBBW guarantees a consistent, Bank-wide analysis procedure.

Options

The fair value option enables LBBW to voluntarily measure financial assets measured at fair value through profit or loss if this eliminates or at least significantly reduces an accounting mismatch. An accounting mismatch arises when different standards are used for the recognition and measurement of financial asstes and related liabilities.

Financial assets that represent an investment in equity instruments can be voluntarily measured at fair value through other comprehensive income. This applies only if they are not held for trading and do not constitute contingent consideration recognized by a purchaser in the context of a business combination.

This option can be exercised separately if the conditions are met for each financial asset and is irrevocable. These options can only be exercised at the time of the financial asset's initial recognition.

Which combinations of business model, cash flow criterion and options result in which measurement is explained in the notes on the effects on the items of the balance sheet.

Allowances for losses on loans and securities

Under IFRS 9, impairment for credit risks is recognized using a three-stage impairment model on the basis of expected credit losses. The scope of provisions for allowances for losses on loans and securities

includes financial assets measured at amortized cost or at fair value through other comprehensive income. This essentially includes loans, securities and lease receivables. For outstanding credit commitments and financial guarantee contracts, provisions in the lending business are established in line with the principles, estimation techniques and assumptions described below.

Calculating allowances for losses on loans and securities
A review is carried out on an ongoing basis to assess whether there is any objective evidence that a financial asset is impaired. The criteria for this review are based on the regulatory definition of default in accordance with the Capital Requirements Regulation (CRR).

If there is no evidence of impairment, impairment losses are recognized in the amount of the expected credit losses resulting from possible loss events in the next 12 months (stage 1). In the event of a significant increase in the default risk of a financial asset since its initial recognition to the balance sheet (stage 2), all expected credit losses over the remaining term of the transaction are recognized directly. These are calculated separately for each individual asset, not as a group.

If there is objective evidence of impairment (stage 3), the impairment loss for significant financial assets is measured as the carrying amount of the transaction less the present value of the estimated cash flows. To calculate anticipated future cash flows, various probability-weighted scenarios are used to estimate expected proceeds from the transaction (payments of principal and interest) and any payments from the liquidation of collateral on the basis of their amount and accrual date. The procedure for financial assets that are not significant is the same as for stage 2 assets (stage 3 based on parameters).

For financial assets allocated to stages 1 and 2 or measured on the basis of parameters under stage 3, the expected credit loss is calculated based on the probability of default (PD), the estimated loss given default (LGD) and the expected exposure at default (EaD). These parameters are standardized at 12 months for stage 1 transactions. To calculate life-time expected credit loss, the inputs are standardized at the remaining term of the financial asset.

Regardless of the remaining term, expected credit losses (calculated as the product of the three parameters already described) are discounted to the end of the reporting period using the effective interest rate of the transaction or an approximation of this rate. This does not apply to significant financial assets which already show objective evidence of impairment at initial recognition. In this case, the effective interest rate is adjusted by taking into account the life-time expected credit losses, with the result that no further allowances for losses on loans and securities are reported on initial recognition. The credit-adjusted effective interest rate resulting from this is used for subsequent measurement.

LBBW has not used the simplified approach in accordance with IFRS 9.5.5.15 for lease receivables.

Inputs, assumptions and consideration of forward-looking information

Specific rating and risk classification procedures are used for all relevant business activities. These procedures quantify the probability of default of the individual investments, which is initially standardized to 12 months. In addition, multi-year probabilities of default are determined on the basis of many years of internal rating histories. Historical, current and forward-looking information is considered when determining customer creditworthiness, provided this demonstrably improves the forecast quality. In addition, the regulatory rating for the Bank's core business areas – corporate customers and real estate financing in Germany – is adjusted for expected economic conditions.

The loss given default is primarily determined by the probability of recovery and the collateral ratio of the underlying asset. The collateral ratio is the ratio between the expected proceeds from the liquidation of collateral and the expected exposure at default. There are specific forecasts for different types of collateral and customer groups. The estimates of the model inputs are based on pool data gathered by the Bank itself and in cooperation with savings banks and other Landesbanks, in which case it has been ascertained that these data are representative for LBBW. The LGD is initially standardized at 12 months. In addition, multi-year loss rates for defaults are determined using collateral value models and EaD forecasts for each potential default date for the debtor. Similar to the probability of default forward-looking information is also considered.

The quality of the risk classification procedures used to measure PD, LGD and EaD is reviewed regularly and the procedures are refined if necessary. Most of the portfolio is measured using internal rating procedures that have been approved for the Internal Ratings Based Approach (IRBA) by the banking regulator. The rating grades are not only used for internal management purposes but also to measure the regulatory capital requirements.

Consideration of changes to estimation techniques or assumptions

All models used to calculate expected credit losses in the reporting period were validated regularly and adjusted if necessary. There were no significant changes to methodology that would affect the calculation of expected credit losses.

Consideration of forward-looking information

All business areas and risk parameters are also regularly subjected to qualitative and quantitative analysis to determine whether there are special circumstances requiring an adjustment to allowances for losses on loans and advances. Special cases are extraordinary, temporary circumstances in which the models are unable to create parameters suitable for the calculation of allowances for losses on loans and advances set out in IFRS 9. That means that in these special cases the modeling might no longer deliver unbiased results. This affects PD, LGD and EaD (including correlation between the parameters) in both a one-year and a multi-year period. A special case could, for example, occur in the case of large macro-economic fluctuations which are not sufficiently taken into account in the ratings. A process involving the Early Warning team was created to recognize and consider special cases. This interdisciplinary group of experts from Research, Front Office, Back Office and Risk Controlling deal with all relevant events that may influence LBBW's operating activities on both a regular and ad hoc basis. Its aims include identifying crises and developing scenarios for LBBW's management bodies in the event that they emerge.

Description of transfer criterion
Three criteria (transfer criterion) are used to assess whether to measure impairment on the basis of 12-month expected credit loss (stage 1) or over the lifetime of a transaction (stage 2):

- Quantitative transfer criterion: First, the expected probability of default at the end of the reporting period is calculated using the initial rating and expected migrations specific to the segment. If the current risk assessment is significantly worse than the expected value at the end of the reporting period, the financial asset is transferred.
- «Low credit risk assumption« criterion: Receivables with a probability of default of less than 20 basis points are defined as receivables with a low probability of default and are exempt. A change in the receivables' probability of default by a maximum of 10 basis points in comparison to the initial rating is also considered a low probability of default. In this case, the impairment loss is always measured using the 12-month expected credit loss.
- »Warning signal« criterion: If certain warning signals are present, the impairment loss of a receivable is always measured using the life-time expected credit losses. This includes internal warnings, 30-day arrears, actively intensified loan management or forbearance measures.

Securities are exempt from the above criteria; stages are allocated on the basis of the current rating. If this falls under »investment grade«, it is allocated to stage 1. In all other cases, the securities are allocated to stage 2 and the impairment loss is measured on the basis of the life-time expected credit losses. The definition of »investment grade« is based on international standards.

There is another exception for financial assets which already show objective evidence of impairment at initial recognition. In this case, impairment loss is always measured using the life-time expected credit losses of the transaction (stage 2), even when recovery is expected or actually occurs. There is no stage transfer for these transactions.

For the quantitative aspects of the transfer criterion, the current rating with a timescale for probability of default of 12 months is considered. As shown by analysis in the context of the development of the transfer criterion, this is suitable for measuring the probability of default over the remaining term.

Balance sheet recognition
For Financial assets measured at amortized cost, allowances for losses on loans and securities are deducted directly. The amount remaining after the deduction of allowances for losses on loans and securities is reported in the balance sheet. For transactions subject to measurement at fair value through other comprehensive income, the amount reported in the balance sheet is the fair value. Credit losses for off-balance-sheet transactions are shown in the item provisions for credit risks.

Financial assets measured at amortized cost

Financial assets belonging to portfolios with the »Hold« business model and which meet the requirements for a simple loan agreement are reported in this statement of financial position item. The item exclusively comprises non-derivative debt instruments such as receivables and securities. These financial assets are measured at amortized cost.

Interest income (positive and negative) and fees of an interest nature from these financial assets are reported in the income statement in the item »Net interest income and current net income/loss from equity instruments«. Expenses and income resulting from allowances for losses on loans and securities and gains and losses from selling these financial assets can be found in the income statement under the item »Net income/expenses from financial assets measured at amortized cost«.

Financial assets measured at fair value through other comprehensive income

Financial assets (debt instruments) held in portfolios with the »Hold to collect and sell« business model and which meet the requirements for a simple loan agreement are reported here. Fluctuations in the fair value of these assets are recognized through other comprehensive income. Interest and fees of an interest nature from a financial asset measured at fair value through other comprehensive income are also distributed on an accrual basis and changes in default risks from recognizing impairment losses are taken into account.

Interest income (positive and negative) from these financial assets is reported in the income statement in the item »Net interest income and current net income/loss from equity instruments«. Expenses and income resulting from allowances for losses on loans and securities and gains and losses from selling these financial assets is shown in the income statement under »Net income/expenses from financial assets measured at fair value through other comprehensive income«. Effects of changes in fair value are recognized directly in »Other comprehensive income«.

Financial assets that are equity instruments voluntarily recognized at fair value through other comprehensive income are also shown under this balance sheet item. Under this option, only distributions from these financial instruments are recognized through profit or loss under »Net interest income and current net income/loss from equity instruments«. All other effects, such as changes in the fair value of gains/losses on disposal, are reported directly in equity under »Other comprehensive income«.

Financial assets designated at fair value

Financial assets designated at fair value comprise financial assets that are voluntarily recognized at fair value through profit or loss. The balance sheet item exclusively comprises debt instruments that meet the requirements for a simple loan agreement and which belong to portfolios with the »Hold« or »Hold to collect and sell« business models. Voluntary subsequent measurement at fair value through profit or loss immediately takes into account all fluctuations in the fair value in the income statement.

Interest income (positive and negative) from these financial assets and distributions from equity instruments are reported in the income statement under »Net interest income and current net income/loss from equity instruments«. Changes to fair value and gains and losses from selling these financial assets can be found in the income statement under »Net income/expenses from financial instruments measured at fair value through profit or loss«.

Financial assets mandatorily measured at fair value through profit or loss

Financial assets which either do not meet the requirements of a simple loan agreement or which belong to a portfolio with the »Sell« business model are reported in this balance sheet item. Subsequent measurement at fair value through profit or loss immediately takes into account all fluctuations in fair value in the income statement.

Interest income (positive and negative) from these financial assets and distributions from equity instruments are reported in the income statement under »Net interest income and current net income/loss from equity instruments«. Changes to fair value and gains and losses from selling these financial assets can be found in the income statement under »Net income/expenses from financial instruments measured at fair value through profit or loss«.

Initial adoption of IFRS 9

As part of the first-time adoption of IFRS 9, the names and content of balance sheet items were partially adapted to the new measurement categories for financial assets:

- Financial assets belonging to portfolios with the »Hold« business model and which meet the requirements for a simple loan agreement as defined in IFRS 9 are reported under »Financial assets measured at amortized cost«. The nature of a simple loan agreement is explained in the accounting policies under »Cash flows«. Amortized cost includes allowances for losses on loans and securities. The former practice of reporting allowances for losses on loans and advances separately has thus been discarded.
- Financial assets (debt instruments) held in portfolios with the »Hold to collect and sell« business model and which meet the requirements for a simple loan agreement as defined in IFRS 9 are reported under »Financial assets measured at fair value through other comprehensive income«. Financial assets that are equity instruments voluntarily recognized at fair value through other comprehensive income are also shown under this balance sheet item. The recognition of changes in the fair value of equity instruments through other comprehensive income excludes impairment recognized through profit of loss, transfers of components recognized in equity to the income statement (recycling) and the recognition through profit or loss of disposal gains and losses. Only dividends from these financial instruments are recognized in profit or loss.
- The item »Financial assets designated at fair value« shows financial assets that are voluntarily recognized at fair value through profit or loss. The balance sheet item exclusively comprises debt instruments that meet the requirements for a simple loan agreement and which belong to portfolios with the »Hold« or »Hold to collect and sell« business models.
- Financial assets that either do not meet the requirements of a simple loan agreement or that belong to a portfolio with the »Sell« business model are reported in »Financial assets mandatorily measured at fair value through profit or loss«.

For reasons of consistency, balance sheet items which only include financial liabilities were also brought into line with the measurement categories. This led to the creation of a new balance sheet item »Financial liabilities measured at amortized cost«, under which the previous items »Deposits from banks«, »Deposits from customers«, »Securitized liabilities« and »Subordinated capital« are reported separately.

These voluntary adjustments make it clear that, in LBBW's balance sheet, financial instruments are grouped according to their measurement category while also improving the clarity of the financial statements. As the IAS 39 balance sheet also included items grouped by their measurement category, the line items from the previous year were compared against the new items in accordance with their measurement category without adjustment.

Impact of the first-time adoption of IFRS 9.

The following tables provide an aggregate overview of the effects on assets and liabilities as a result of the amended classification and measurement from IAS 39 as at 31 December 2017 to IFRS 9 as at 1 January 2018.

For the purposes of reconciliation, the IAS 39 balance sheet items grouped by measurement category were first allocated to an IFRS 9 measurement category. This basic allocation is shown in the following table:

Basic allocation

IAS 39 balance sheet item	IFRS 9 measurement category
Loans and advances to banks, loans and advances to customers, financial investments (LaR)	Financial assets measured at amortized cost
Securities, loans and receivables designated as financial investments available for sale	Financial assets measured at fair value through other comprehensive income
Securities, loans and receivables designated at fair value	Financial assets designated at fair value
Trading assets, positive fair values from derivative hedging instruments, equity instruments designated at fair value and financial investments available for sale	Financial assets mandatorily measured at fair value through profit or loss
Trading liabilities, financial liabilities designated at fair value, negative fair values from hedging derivatives	Liabilities measured at fair value through profit or loss
Deposits from banks, deposits from customers, securitized liabilities, other liabilities – of which finance leases, subordinated capital	Liabilities measured at amortized cost

In the following reconciliation tables, the »Reclassification« column shows allocations that differ from the basic allocation presented above on account of the classification criteria of IFRS 9 with the carrying amount as at 31 December 2017 (IAS 39). The aggregate measurement effects resulting from the first-time adoption of the measurement provisions of IFRS 9 are shown in the »Revaluation« column.

In the next columns, the carrying amount in accordance with IAS 39, less reclassification plus remeasurement in accordance with IFRS 9, is reconciled to the IFRS 9 measurement categories and thus shows the carrying amount under IFRS 9 as at 1 January 2018. If relevant, deferred taxes were taken into account for all remeasurement in the opening balance sheet. However, the remeasured amounts in the following tables show the effect before deferred taxes.

The tables below reconcile the carrying amount as at 31 December 2017 on the basis of the IAS 39 regulations to the new carrying amount in accordance with IFRS 9 as at 1 January 2018:

Reconciliation of assets

EUR million	Carrying amount under IAS 39 as at 31 December 2017	Reclassification	Remeasurement	Carrying amount in accordance with IFRS 9 as at 1 January 2018			
				Financial assets mandatorily measured at fair value through profit or loss	Financial assets designated at fair value	Financial assets measured at fair value through other comprehensive income	Financial assets measured at amortized cost
Assets measured at fair value							
Trading assets	28,698	0	– 34	28,663	0	0	0
Derivatives	17,747	0	– 34	17,713	0	0	0
Equity instruments	1,876	0	0	1,876	0	0	0
Securities	6,178	0	0	6,178	0	0	0
Receivables	2,897	0	0	2,897	0	0	0
Financial assets designated at fair value	732	306	0	306	426	0	0
Equity instruments	215	215	0	215	0	0	0
Securities	110	64	0	64	46	0	0
Receivables	408	28	0	28	380	0	0
Positive fair values from derivative hedging instruments	1,956	0	0	1,956	0	0	0
Interest rate-linked derivatives	1,946	0	0	1,946	0	0	0
Cross-currency interest rate swaps	10	0	0	10	0	0	0
Financial investments (AfS)	21,185	1,243	19	211	0	20,302	694
Equity instruments	772	566	0	205	0	567	0
Securities	20,413	678	19	5	0	19,736	694
Assets measured at amortized cost							
Loans and advances to banks (before allowances for losses on loans and advances)	48,184	50	1	0	51	0	48,133
Loans and advances to customers (before allowances for losses on loans and advances)	108,332	5,562	47	2,765	551	2,279	102,783
Allowances for losses on loans and advances	– 684	8	– 184	0	0	0	– 860
Financial investments (LaR) (after allowances for losses on loans and advances)	1,663	672	8	5	0	679	986
Equity instruments	5	0	0	5	0	0	0
Securitized transactions	399	0	0	0	0	0	399
Other securities	1,259	672	8	0	0	679	588

The end of the obligation to separate embedded derivatives resulted in a remeasurement effect of EUR – 34 million from derivatives measured at fair value.

Some receivables with a fair value of EUR 28 million and securities with a fair value of EUR 64 million were reclassified from »Designated at fair value« to »Financial assets mandatorily measured at fair value through profit or loss«, as their contractually agreed cash flows do not contain solely payments of principal and interest (SPPI).

The option to reclassify equity investments from »AfS financial investements« to »Financial assets measured at fair value through profit or loss« was excercised for selected equity investments. The fair value of these equity investments was EUR 567 million. Individual securities under »AfS financial investments« were assigned to the »Hold« business model and accordingly to the measurement category »Financial assets measured at amortized cost«. The carrying amount of these securities was EUR 694 million.

The balance sheet item »Loans and advances to customers« included loans and advances with a fair value of EUR 2,765 million whose contractually agreed cash flows do not comprise solely payments of principal and interest (SPPI). The transactions were therefore allocated to the measurement category »Financial assets mandatorily measured at fair value through profit or loss«. Furthermore, a portfolio of promissory note loans with a fair value of EUR 2,279 million was allocated to the »Hold to collect and sell« business model and correspondingly the measurement category »Financial assets measured at fair value through other comprehensive income«. Due to the phase-out of separate accounting for optional rights for embedded derivatives under IFRS 9, loans and advances to banks and customers were designated at fair value (EUR 602 million) in order to avoid an accounting mismatch. The reclassifications led to a total increase in the carrying amount of EUR 48 million.

Transactions with a fair value of EUR 679 million from other securities in financial investments (LaR) were allocated to the »Hold to collect and sell« business model and correspondingly the measurement category »Financial assets measured at fair value through other comprehensive income«. EUR 8 million of the total increase of EUR 11 million in the carrying amount due to reclassification results from this.

In the context of the transition to IFRS 9, securities measured at fair value through other comprehensive income under IAS 39 were allocated to the category »Financial assets measured at amortized cost«. As at the end of the reporting period, the fair value of these reclassified securities was EUR 592 million. Without the reclassification of the securities, a loss of EUR – 15 million due to the change in fair value would have been recognized in other comprehensive income as at 30 June 2018.

Reconciliation of liabilities

EUR million	Carrying amount under IAS 39 as at 31 December 2017	Reclassifi-cation	Re-measurement	Carrying amount in accordance with IFRS 9 as at 1 January 2018		
				Financial liabilities mandatorily measured at fair value through profit or loss	Financial liabilities designated at fair value	Financial liabilities measured at amortized cost
Liabilities measured at fair value						
Trading liabilities	21,882	0	0	21,882	0	0
Derivatives	15,493	0	0	15,493	0	0
Delivery obligations from short sales of securities	1,289	0	0	1,289	0	0
Deposits	225	0	0	225	0	0
Securitized liabilities	4,874	0	0	4,874	0	0
Other financial liabilities	1	0	0	1	0	0
Financial liabilities designated at fair value	2,726	0	0	0	2,726	0
Deposits	1,492	0	0	0	1,492	0
Securitized liabilities	1,234	0	0	0	1,234	0
Negative fair values from derivative hedging instruments	3,315	0	0	3,315	0	0
Interest rate derivatives	3,288	0	0	3,288	0	0
Cross-currency interest rate swaps	27	0	0	27	0	0
Liabilities measured at amortized cost						
Deposits from banks	61,895	225	8	0	233	61,670
Deposits from customers	79,415	274	22	0	313	79,124
Securitized liabilities	44,432	2,125	39	0	2,163	42,307
Other liabilities – of which finance leases	3	0	0	0	0	3
Subordinated capital	5,364	46	16	0	62	5,318

To avoid an accounting mismatch, »Liabilities at amortized cost« with a total fair value of EUR 2,772 million were designated at fair value. This entailed a total increase of EUR 102 million in the respective carrying amounts, EUR 36 million of which is attributable to own credit spread. Offsetting remeasurement effects in connection with the end of the obligation to separate embedded derivatives resulted in a EUR 17 million decrease in carrying amounts.

Allowances for losses on loans and securities

EUR million	Carrying amount under IAS 39 as at 31 December 2017	Re-measurement	Allowances for losses on loans and securities for transactions in the following classifications as at 1 January 2018		
			Financial assets measured at fair value through other comprehensive income	Financial assets measured at amortized cost	Provisions for lending business
Allowances for losses on loans and advances	757	203	3	866	92
Financial instruments loans and receivables	685	177	0	861	0
Loans and advances to banks	5	1	0	5	0
Loans and advances to customers	679	176	0	855	0
Financial investments	1	0	0	1	0
Provisions for lending business	73	19	0	0	92
Financial instruments available for sale	0	7	3	4	0

The increase in allowances for losses on loans and securities is essentially due to the change from an incurred loss model to an expected credit loss model. Reclassifications of financial instruments whose allowances for losses on loans and securities have been derecognized and incorporated into measurement at fair value and reclassifications of financial instruments within the scope of IFRS 9 provisions on allowances for losses on loans and securities had only insignificant effects. Details on the new model for allowances for losses on loans and securities can be found in the section »Changes to accounting policies«.

Comparative information

In applying IFRS 9 for the first time, LBBW is exercising the option of not calculating the comparative prior-year figures in accordance with IFRS 9. Accordingly, no comparative prior-year figures are reported for disclosures being presented for the first time. For disclosures in accordance with IAS 39 presented prior to the first-time adoption of IFRS 9, comparative prior-year figures have been relocated in line with the structure of the notes in accordance IFRS 9 with no changes to content. If reconciliation is not possible, the prior-year figures are shown in accordance with the structure published in the previous year.

3. Basis of consolidation

In addition to LBBW (Bank) as the parent company, 108 subsidiaries, including eight structured entities (previous year: 103 subsidiaries including nine structured entities), were included in the consolidated interim financial statements.

The following subsidiaries were included in consolidation for the first time in 2018:

- Carnotstr. 5–7 Berlin Verwaltungs GmbH
- Carnotstr. 5–7 Berlin GmbH & Co. KG
- Lyoner Quartier Beteiligungs GmbH
- zob Esslingen Grundbesitz GmbH
- LBBW Immobilien Investment Management GmbH
- Projektgesellschaft SMK 69 mbH

The following structured entity was deconsolidated in the period under review.

- LBBW Unternehmensanleihen Euro Offensiv

The consolidated subsidiary CFH Beteiligungsgesellschaft mbH was renamed Süd KB Sachsen GmbH. Furthermore, the consolidated subsidiary Schockenried GmbH und Co. KG was renamed Eberhardstraße Stuttgart GmbH & Co. KG.

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

A total of 68 subsidiaries (previous year: 70 subsidiaries) were not included in the consolidated interim financial statements because their individual and aggregate influence on the net assets, financial position and results of operations of the LBBW Group is not significant. These are predominantly property and shelf companies. The interests in these entities are measured either at fair value or amortized cost.

Segment reporting

The segment reporting of the LBBW Group for the first half of 2018 has been prepared 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.

Segment definition

In the course of refining its business focus, LBBW restructured its segments as at 1 January 2018. This essentially entailed:

- The division of the Corporates segment into the new Corporate Customers and Real Estate/Project Finance segments. As a result of the new organizational structure and the associated overall responsibility for real estate lending business, project finance and real estate management were merged to form a separate division, the new Real Estate/Project Finance segment.
- Business customers (including liberal professions) that were previously included in the Corporates and Retail/Savings Banks segments and are now bundled in the Private Customers/Savings Banks segment (formerly the Retail/Savings Banks segment).
- The break-up of the Credit Investments segment following the complete sale of the guarantee portfolio in 2014 and the non-guaranteed loan portfolio in 2016, and the almost complete sale of the Sealink assets by the administrator as at the end of 2017. The remaining volume and earnings effects are included in the Corporate Items segment.

For reasons of comparability, the previous year's amounts were adjusted in line with the new segment reporting structure.

The segments are presented below in full in order to ensure transparency regarding the new segment structure. The Capital Markets segment and Corporate Items and Reconciliation/Consolidation are virtually unchanged from the descriptions published in the 2017 annual financial statements.

The business segments presented below are defined as product and customer groups – based on 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 ***Corporate Customers*** segment comprises business with SMEs, with a focus on the core markets of Baden-Württemberg, Saxony, Rhineland-Palatinate and neighboring economic areas. Business with our key accounts and the public sector are also bundled in this segment. On the financing side, the solutions offered range from classic to structured and off-balance-sheet financing. Furthermore, this segment provides services in the areas of cash management, interest rate, currency and commodities management in addition to asset and pension management. The results of primary capital market business products and foreign business products sourced from our corporate customers are also reported here. In addition to the product range for corporate customers, the segment primarily includes the following subsidiaries: Süd Beteiligungen, SüdLeasing GmbH, MKB Mittelrheinische Bank GmbH and SüdFactoring GmbH.

- The *Real Estate/Project Finance* segment primarily focuses on commercial real estate business, including business with real estate and housing companies in addition to structured project finance. Alongside the core market of Germany, commercial real estate financing focuses on selected metropolitan areas in the US and UK. Property, portfolio and corporate financing structures are offered to real estate clients as an arranger or syndicate bank with a supplementary range of liability and service products for interest rate and currency management. Project Finance offers financing solutions to real estate and corporate customers for major projects and transport financing. The segment also includes the subsidiary LBBW Immobilien Management GmbH.
- The *Capital Markets Business* segment offers products for the management of interest rate, currency and credit risk and liquidity management for institutional, banks and savings banks customer groups. In addition, the segment includes products and services for 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 customer business. The Corporate Customers segment includes all results from financial market transactions with corporate customers. All treasury activities are also allocated to this segment. This essentially comprises the central investment of own funds, lending/deposit-taking operations and balance sheet structure management, liquidity management, the specifics of IFRS in connection with refinancing, FX management and hedge accounting, not to mention the management of strategic investments and cover funds. The subsidiary LBBW Asset Management Investmentgesellschaft mbH is also allocated to this segment.
- The *Private Customers/Savings Banks* segment comprises all activities with private customers in retail banking in addition to high net-worth private clients with more extensive customer requirements. Business customers including non-medical practitioners, freelancers and tradespeople are also assigned to this segment. As part of a bundled customer management approach, the segment serves both the business and private requirements of its tradespeople customers. The product range extends from checking accounts and card business to classic financing, investment advice and special services – in particular for high net-worth private clients – such as financial planning, asset management, securities account management and foundation management. Selected business activities connected with the Bank's function as the central bank for savings banks are also included in this segment.
- The Corporate Items segment comprises all business activities not included in the above segments. In particular, these are the financial investments and the management of LBBW Bank's portfolio of buildings. Moreover, the remaining volume and earnings effects from the former Credit Investment segment are shown here.
- The *Reconciliation/Consolidation* column includes purely consolidation adjustments and also shows the reconciliation of internal financial control data to external financial reporting data.

Measurement methods

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

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 capital benefit, i.e. investment income from restricted equity.

Net gains/losses on remeasurement consist of net income/expenses from investments accounted for using the equity method, net gains/losses from financial assets measured at amortized cost (above all allowances for losses on loans and advances), net gains/losses from financial instruments measured at fair value through other comprehensive income and net gains/losses from financial instruments measured at fair value through profit or loss. These are assigned 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.

Expenses for the bank levy and deposit guarantee system, in addition to net gains/losses from restructuring, are allocated to the segments in which they arise. The guarantee commission to the state of Baden-Württemberg, which was still incurred in the previous year, is reported under Corporate Items in accordance with the change in segment allocation.

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 restricted capital in the segments is calculated on the basis of calculated risk-weighted assets and imputed Tier 1 capital backing. A segment's return on equity (RoE) is calculated as the ratio of (annualized) consolidated profit/loss before tax to the maximum planned average restricted equity and average tied-up equity 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. This figure is adjusted for the unappropriated profit for the current reporting period.

For the segment disclosures below, the cost/income ratio (CIR) is calculated as the ratio of total administrative expenses, expenses for the bank levy and deposit guarantee system, the guarantee commission for the State of Baden-Württemberg and net restructuring income to total net interest income, net commission income, net gains on remeasurement and disposal less allowances for losses on loans and securities and other operating income/expenses.

Segment allocation was refined further in the first half of 2018 as a result of the structural adjustments. The prior-year amounts were adjusted in line with the new reporting method to ensure comparability.

Segment results

1 Jan. – 30 Jun. 2018

EUR million	Corporate Customers	Real Estate/Project Finance	Capital Markets Business	Private Customers/ Savings Banks	Corporate Items/ Reconciliation/ Consolidation	LBBW Group
Net interest income	383	133	124	161	– 5	796
Net fee and commission income	81	7	72	116	– 15	262
Net gains/losses on remeasurement and disposal	11	– 8	116	1	15	135
of which allowances for losses on loans and securities[1]	– 24	– 10	1	– 3	3	– 33
Other operating income/expenses	5	45	0	– 3	11	58
Total operating income/expenses	*479*	*178*	*312*	*275*	*6*	*1,250*
Administrative expenses	– 311	– 68	– 244	– 264	9	– 878
Expenses for bank levy and deposit guarantee system	– 13	– 6	– 21	– 4	– 46	– 89
Consolidated profit/loss before tax	*155*	*104*	*47*	*7*	*– 31*	*282*
Income taxes						– 77
Net consolidated profit/loss						*206*
Segment assets (EUR billion)	56.7	24.9	154.9	13.1	8.9	258.5
Risk-weighted assets[2] (EUR billion)	35.6	10.6	18.3	8.0	6.5	79.1
Tied-up equity[2] (EUR billion)	4.4	1.3	2.6	1.0	3.6	13.0
RoE (in %)	7.1	14.7	3.4	1.2		4.4
CIR (in %)	64.2	39.5	85.4	96.5		75.4

1 Relates to the category »Financial assets measured at amortized cost«.
2 In accordance with CRR/CRD IV.

1 Jan. – 30 Jun. 2017 EUR million	Corporate Customers	Real Estate/Project Finance	Capital Markets Business	Private Customers/ Savings Banks	Corporate Items/ Reconciliation/ Consolidation	LBBW Group
Net interest income	354	155	160	165	– 37	797
Net fee and commission income	95	10	69	121	– 25	270
Net gains/losses on remeasurement and disposal	23	22	213	5	– 72	191
of which allowances for losses on loans and securities[1]	– 44	6	1	5	– 7	– 40
Other operating income/expenses	5	18	5	0	27	56
Total operating income/expenses	*478*	*204*	*447*	*291*	*– 107*	*1,313*
Administrative expenses	– 294	– 62	– 231	– 300	– 10	– 897
Expenses for bank levy and deposit guarantee system	– 10	– 4	– 15	– 3	– 38	– 69
Guarantee commission for the State of Baden-Württemberg	0	0	0	0	– 38	– 38
Net income/expenses from restructuring	– 16	– 5	– 7	– 3	0	– 30
Consolidated profit/loss before tax	*158*	*133*	*195*	*– 15*	*– 193*	*279*
Income taxes						– 77
Net consolidated profit/loss						*201*
Segment assets (EUR billion)	54.1	24.6	140.4	13.2	5.4	237.7
Risk-weighted assets[2] (EUR billion)	31.6	10.2	18.9	7.9	7.2	75.7
Tied-up equity[2] (EUR billion)	2.8	0.9	1.8	0.7	6.7	12.9
RoE (in %)	10.4	22.9	17.7	< 0		4.3
CIR (in %)	61.2	35.7	56.5	> 100		76.4

1 Relates to the category »Financial assets measured at amortized cost«.
2 In accordance with CRR/CRD IV.

Details on Corporate Items, Reconciliation and Consolidation

EUR million	Corporate Items		Reconciliation/ Consolidation		Corporate Items/ Reconciliation/Consolidation	
	1 Jan. – 30 Jun. 2018	1 Jan. – 30 Jun. 2017	1 Jan. – 30 Jun. 2018	1 Jan. – 30 Jun. 2017	1 Jan. – 30 Jun. 2018	1 Jan. – 30 Jun. 2017
Net interest income	15	– 14	– 20	– 23	– 5	– 37
Net fee and commission income	– 5	1	– 11	– 26	– 15	– 25
Net gains/losses on remeasurement and disposal	29	– 3	– 14	– 69	15	– 72
of which allowances for losses on loans and securities[1]	3	– 7	0	0	3	– 7
Other operating income/expenses	11	27	0	0	11	27
Total operating income/expenses	*50*	*11*	*– 44*	*– 118*	*6*	*– 107*
Administrative expenses	9	– 10	0	0	9	– 10
Expenses for bank levy and deposit guarantee system	– 46	– 38	0	0	– 46	– 38
Guarantee commission for the State of Baden-Württemberg	0	– 38	0	0	0	– 38
Consolidated profit/loss before tax	*14*	*– 75*	*– 44*	*– 118*	*– 31*	*– 193*
Segment assets (EUR billion)	8.1	6.9	0.8	– 1.5	8.9	5.4
Risk-weighted assets[2] (EUR billion)	8.4	8.9	– 1.9	– 1.7	6.5	7.2
Tied-up equity[2] (EUR billion)	3.8	6.9	– 0.2	– 0.2	3.6	6.7

1 Relates to the category »Financial assets measured at amortized cost«.
2 In accordance with CRR/CRD IV.

Reconciliation of segment results to the consolidated income statement

In the 2018 financial year, the total consolidated profit/loss before tax shown under »Reconciliation/Consolidation« increased to EUR – 44 million (previous year: EUR – 118 million) and is essentially due to the following factors:

- In internal management reporting, net interest income is calculated on the basis of the market interest method. Differences compared to the income statement therefore result from prior-period net interest income and measurements specific to IFRS not included in internal management reporting (e.g. effects of purchase price allocation in connection with the takeover of Sachsen LB).
- Effects from close-out fees and associated derivatives premiums.

Notes to the income statement

4. Net interest income

EUR million	1 Jan. – 30 Jun. 2018	1 Jan. – 30 Jun. 2017
Trading derivatives	4,757	3,707
Lending and money market transactions	1,269	1,266
Hedging derivatives	405	668
Fixed-income securities and debentures	70	89
Early termination fees	37	33
Leasing business	139	153
Other	201	180
Interest income	*6,877*	*6,096*
Equities and other non-fixed-income securities	14	1
Equity investments and affiliates	24	20
Profit transfer agreements	0	1
Income from equity instruments	*37*	*22*
Interest income and current income from equity instruments	*6,915*	*6,118*
Trading derivatives	– 4,610	– 3,556
Hedging derivatives	– 362	– 645
Deposits	– 466	– 506
Securitized liabilities	– 301	– 287
Leasing business	– 24	– 27
Subordinated capital	– 106	– 114
Other	– 251	– 187
Interest expense and current expense from equity instruments	*– 6,119*	*– 5,321*
Total	*796*	*797*

In particular, net interest income was reduced by the ECB's ongoing expansionary monetary policy, with negative interest rates at times on earnings contributions from the investment of LBBW's own funds, while earnings were able to improve thanks to the growth in business with corporate customers. Accounting effects, for example in connection with hedge accounting, also had a slightly positive effect on results in the first half of 2018.

Against the backdrop of negative interest rates, capital commitment also gave rise to offsetting effects that affected interest income in the amount of EUR – 116 million (previous year: EUR – 93 million) and interest expense in the amount of EUR 117 million (previous year: EUR 74 million) in the past half-year.

The interest income and expenses from financial assets and liabilities not measured at fair value through profit or loss are distributed on an accrual basis and break down as follows:

EUR million	1 Jan. – 30 Jun. 2018	1 Jan. – 30 Jun. 2017
Financial assets measured at amortized cost		
Interest income	1,208	1,266
Financial assets measured at fair value through other comprehensive income		
Interest income	135	86
Financial liabilities measured at amortized cost		
Interest expense	– 832	– 837

Net interest income for the first half of the 2018 financial year included EUR 23 million (previous year: EUR 0 million) in connection with government grants under targeted longer-term refinancing operations II (TLTRO II).

5. Net fee and commission income

EUR million	1 Jan. – 30 Jun. 2018	1 Jan. – 30 Jun. 2017
Securities and custody business	133	126
Payments business	63	61
Brokerage business	26	44
Loans and guarantees[1]	57	60
Other	47	38
Fee and commission income	*325*	*328*
Securities and custody business	– 38	– 31
Payments business	– 13	– 13
Loans and guarantees[1]	– 4	– 6
Brokerage business	– 3	– 3
Leasing business	– 1	– 1
Other	– 4	– 4
Fee and commission expense	*– 64*	*– 59*
Total	*262*	*270*

1 Includes lending, trustee, guarantee and credit business.

The marginal decline in net fee and commission income was mainly due to the reduction in income from brokerage business. Developments in commission from lending business, payment transactions and securities and custody business were stable with only marginal changes.

Other net fee and commission income mainly comprises income and expenses from asset management activities, including fund consulting services in particular.

6. Net gains/losses on remeasurement and disposal

Net gains/losses on remeasurement break down as follows:

EUR million	1 Jan. – 30 Jun. 2018	1 Jan. – 30 Jun. 2017
Net income/expenses from investments accounted for using the equity method	27	10
Net gains/losses from Financial assets measured at amortized cost	– 34	– 40
Net gains/losses from financial instruments measured at fair value through other comprehensive income	12	90
Net gains/losses from financial instruments measured at fair value through profit or loss	129	130
Total	*135*	*191*

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

EUR million	1 Jan. – 30 Jun. 2018	1 Jan. – 30 Jun. 2017
Current income	2	9
Impairment	– 1	– 4
Reversals of impairment losses	27	0
Net gains/losses from investments in associates	*28*	*4*
Current income	0	6
Impairment	– 2	0
Net gains/losses from shares in joint ventures	*– 2*	*6*
Total	*27*	*10*

Net gains/losses from Financial assets measured at amortized cost

EUR million	1 Jan. – 30 Jun. 2018	1 Jan. – 30 Jun. 2017
Reversal of/disposals from allowances for losses on loans and securities	149	108
Net gains/losses from provisions for lending business	0	3
Recoveries on loans and securities previously written off	6	7
Direct loan write-offs	– 7	– 7
Additions to allowances for losses on loans and securities	– 179	– 149
Other expenses for the lending business	– 1	– 2
Net gains/losses on remeasurement (allowances for losses on loans and securities)	*– 33*	*– 40*
Net gains/losses on disposal	*0*	*0*
Total	*– 34*	*– 40*

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

EUR million	1 Jan. – 30 Jun. 2018	1 Jan. – 30 Jun. 2017
Reversal of/disposals from allowances for losses on loans and securities	2	0
Additions to allowances for losses on loans and securities	– 2	– 2
Net gains/losses on remeasurement (allowances for losses on loans and securities)	*0*	*– 2*
Net gains/losses on disposal	*12*	*92*
Total	*12*	*90*

The marked decline in net income from financial instruments measured at fair value through other comprehensive income was caused by lower contributions from securities and equity investments. While net income from securities was down by EUR – 40 million at EUR 12 million, net income from equity investments was reduced by EUR – 38 million to EUR 0 million. Following the introduction of IFRS 9, the earnings contributions from equity investments are reported under net gains/losses from financial instruments measured at fair value through profit or loss unless they are distributions, in which case they are recognized in net interest income.

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

EUR million	1 Jan. – 30 Jun. 2018	1 Jan. – 30 Jun. 2017
Portfolio fair value hedge	– 11	12
of which hedged items	– 2	– 74
of which hedging instruments	– 9	86
Micro fair value hedge	0	– 1
of which hedged items	38	– 68
of which hedging instruments	– 38	67
Net gains/losses from hedge accounting	*– 11*	*11*
Lending business	1	59
Equity transactions	– 107	95
Foreign exchange transactions	– 10	– 21
Economic hedging derivatives	78	– 140
Interest rate transactions	160	44
Gains/losses from foreign exchange/commodity products	– 27	19
Net trading gains/losses	*95*	*55*
Realized gains/losses	0	– 11
Unrealized gains/losses	1	75
Net gains/losses from financial instruments designated at fair value	*1*	*64*
Net gains/losses from bills	– 1	n/a
Net gains/losses from credits and loans	12	n/a
Net gains/losses from equity investments	6	n/a
Net gains/losses from shares and other equity instruments	27	n/a
Net gains/losses from financial instruments measured at fair value through profit or loss not classified as held for trading and financial investments in equity instruments	*44*	*n/a*
Total	*129*	*130*

In addition to net gains/losses on remeasurement and disposal from transactions that do not satisfy the contractual cash flow criterion, net gains and losses from non-consolidated equity investments and affiliates that were previously measured at fair value through other comprehensive income are now reported under this item in accordance with IFRS 9.

Net gains/losses from financial instruments measured at fair value through profit or loss were at the same level as the previous year.

Capital market activities contributed EUR 116 million to the result, while banking book management contributed only EUR 13 million. Hedge accounting had a slightly negative effect of EUR – 11 million.

Net gains from shares and other equity instruments benefited from a subsequent purchase price payment in connection with a disposal of an equity investment in 2015.

7. Other operating income/expenses

EUR million	1 Jan.– 30 Jun. 2018	1 Jan.– 30 Jun. 2017
Disposal of inventories	47	114
Reversal of other provisions	10	22
Revenue from property services	7	7
Income from cost refunds by third parties	15	15
Management of other property portfolios	1	1
Operating leases	10	13
Rental income from investment property	25	25
Net income from the fair value measurement of investment property	10	10
Miscellaneous operating income	21	37
Other operating income	*146*	*243*
Disposal of inventories	– 35	– 97
Addition to other provisions	– 8	– 34
Operating leases	– 3	– 3
Operating expenses for leased properties	– 7	– 6
Foreign currency translation on investment property	0	– 6
Miscellaneous operating expenses	– 34	– 40
Other operating expenses	*– 88*	*– 188*
Total	*58*	*56*

The income and expenses from the disposal of inventories essentially resulted from the sale of land and buildings in addition to development measures.

While the result from the sale of properties was down by EUR – 16 million, net additions to provisions declined by EUR 15 million.

Net income from investment property was positive once again, having improved by EUR 4 million to EUR 27 million mainly as a result of slight increases in fair value.

Net income from investment property was virtually unchanged, but rose by EUR 6 million as a result of currency translation effects.

8. Administrative expenses

EUR million	1 Jan.– 30 Jun. 2018	1 Jan.– 30 Jun. 2017
Wages and salaries	– 351	– 360
Expenses for pensions and benefits	– 65	– 66
Social security contributions	– 57	– 56
Other staff costs	– 24	– 26
Staff costs	*– 497*	*– 507*
IT costs	– 163	– 179
Legal and consulting expenses	– 34	– 42
Expenses from operating leases	– 24	– 21
Cost of premises	– 26	– 21
Association and other contributions	– 20	– 17
Advertising, public relations and representation costs	– 11	– 8
Audit costs	– 6	– 7
Miscellaneous administrative expenses	– 48	– 48
Other administrative expenses	*– 331*	*– 342*
Amortization and write-downs of intangible assets[1]	– 33	– 29
Depreciation and write-downs of property and equipment[1]	– 17	– 18
Depreciation, amortization and write-downs	*– 50*	*– 48*
Total	*– 878*	*– 897*

1 Including depreciation/amortization and impairment.

Reflecting the reduction in the number of employees and lower pension expenses, staff costs were down despite offsetting effects from pay-scale adjustments.

Other administrative expenses decreased as well, in particular as a result of a reduction in IT costs, which had included high expenses for the operational launch of the new core banking system in the previous year. It should be noted that investment in the modernization of IT, not least for more extensive digitalization, remained at a high level.

Other administrative expenses included postage, transportation and communication costs of EUR – 7 million (previous year: EUR – 8 million) and office and motor vehicle expenses of EUR – 6 million (previous year: EUR – 7 million.

Depreciation on property and equipment and on intangible assets climbed by EUR – 2 million on account of past investment in IT.

9. Net income/expenses from restructuring

EUR million	1 Jan. – 30 Jun. 2018	1 Jan. – 30 Jun. 2017
Additions to restructuring provisions	0	– 30
Total	*0*	*– 30*

Restructuring in the previous year related almost entirely to the recognition of provisions for measures for the streamlining of business processes and the product range. Further restructuring provisions were not required as at the end of the current reporting period.

10. Income taxes

EUR million	1 Jan.– 30 Jun. 2018	1 Jan.– 30 Jun. 2017
Income taxes from previous years	4	– 10
Income taxes from the reporting period	– 38	– 26
Deferred income taxes	– 42	– 42
Total	*– 77*	*– 77*

The notional effective tax rate for the Group in the reporting period was 27 % (previous year: 28 %).

Notes to the balance sheet

11. Cash and cash equivalents

EUR million	30 Jun. 2018	31 Dec. 2017
Balances with central banks	32,389	22,565
Cash	132	164
Total	*32,522*	*22,729*

The rise in central bank balances on account of excess liquidity on the money markets was essentially due to a higher balance at Deutsche Bundesbank of EUR 27,194 million (previous year: EUR 17,410 million).

12. Financial assets measured at amortized cost

Loans and advances to banks

The breakdown of loans and advances to banks by type of business is as follows:

EUR million	30 Jun. 2018	31 Dec. 2017
Public-sector loans	27,339	26,462
Current account claims	1,835	1,015
Securities repurchase transactions	12,845	10,148
Other loans	3,006	2,340
Borrower's note loans	6	6
Overnight and term money	7,094	7,189
Mortgage loans	475	298
Other receivables	3,122	725
Total, gross	*55,722*	*48,184*
Allowances for losses on loans and securities	– 6	– 5
Total, net	*55,716*	*48,179*

Securities repurchase business in particular grew as a result of the expansion of business with central counterparties and large European banks. The stronger development in loan business with savings banks also allowed public-sector loans to rise. The increase in other receivables was primarily due to payments not yet received as at the end of the reporting period.

The breakdown of loans and advances to banks by region is as follows:

EUR million	30 Jun. 2018	31 Dec. 2017
Banks within Germany	37,991	33,842
Banks outside Germany	17,731	14,341
Total, gross	*55,722*	*48,184*
Allowances for losses on loans and securities	– 6	– 5
Total, net	*55,716*	*48,179*

Loans and advances to customers

The breakdown of loans and advances to customers by type of business is as follows:

EUR million	30 Jun. 2018	31 Dec. 2017
Other loans	22,587	22,862
Mortgage loans	30,660	30,506
Public-sector loans	12,834	17,479
Receivables from finance leases	5,275	5,367
Transmitted loans	3,243	3,199
Securities repurchase transactions	14,369	10,830
Current account claims	3,367	2,761
Overnight and term money	7,170	5,599
Borrower's note loans	5,876	5,413
Other receivables	4,670	4,316
Total, gross	*110,050*	*108,332*
Allowances for losses on loans and securities	– 837	– 679
Total, net	*109,213*	*107,652*

In connection with the transition to IFRS 9, transactions that did not satisfy the contractual cash flow criterion on account of adverse collateral agreements were allocated to financial assets mandatorily measured at fair value through profit or loss in the amount of EUR 2.8 billion. A portfolio of EUR 2.3 billion used for short-term liquidity management was allocated to the »hold to collect and sell« business model, and is therefore reported at fair value through other comprehensive income. This was offset by increases in securities repurchase business in particular in the current financial year.

The breakdown of loans and advances to customers by region is as follows:

EUR million	30 Jun. 2018	31 Dec. 2017
Customers within Germany	74,849	76,520
Customers outside Germany	35,202	31,812
Total, gross	*110,050*	*108,332*
Allowances for losses on loans and securities	– 837	– 679
Total, net	*109,213*	*107,652*

Debentures and other fixed-income securities

EUR million	30 Jun. 2018	31 Dec. 2017
Money market instruments	28	282
Government bonds and government debentures	421	n/a
Other bonds and debentures	805	1,382
Total, gross	*1,253*	*1,663*
Allowances for losses on loans and securities	– 5	– 1
Total, net	*1,248*	*1,663*

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

EUR million	30 Jun. 2018	31 Dec. 2017
Money market instruments	1,403	1,764
Bonds and debentures	18,855	18,649
Debentures and other fixed-income securities	*20,258*	*20,413*
Receivables	*2,257*	*n/a*
Investment fund units	0	14
Equity investments	525	699
Shares in affiliates	4	59
Equity instruments	*530*	*772*
Total	*23,045*	*21,185*

The statement of financial position item »Financial assets measured at fair value through other comprehensive income« rose mainly on account of the reclassification of the LCR portfolio (highly liquid securities) in the context of the transition to IFRS 9. The adoption of IFRS 9 has meant the reclassification of equity investments from measurement through other comprehensive income to measurement through profit or loss. This item still mainly consists of debentures and fixed-income securities.

Allowances for losses on loans and securities for financial assets measured at fair value through other comprehensive income are shown under note 28.

14. Financial assets designated at fair value

EUR million	30 Jun. 2018
Debentures and other fixed-income securities	*46*
Receivables	*921*
Total	*967*

EUR million	31 Dec. 2017
Debentures and other fixed-income securities	110
Bonds and debentures	110
Equities and other non-fixed-income securities	215
Investment fund units	214
Other	408
Borrower's note loans	408
Total	*732*

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

Financial assets mandatorily measured at fair value through profit or loss break down as follows:

EUR million	30 Jun. 2018	31 Dec. 2017
Positive fair values from derivative hedging instruments	1,698	1,956
Trading assets	25,484	28,698
Financial instruments measured at fair value through profit or loss, not classified as held for trading, and financial investments in equity instruments	3,204	n/a
Total	*30,386*	*30,654*

In addition to transactions that do not satisfy the contractual cash flow criterion, non-consolidated equity investments that were previously measured at fair value through other comprehensive income are now reported under this item in accordance with IFRS 9.

Positive fair values from derivative hedging instruments

EUR million	30 Jun. 2018	31 Dec. 2017
Positive fair values from portfolio fair value hedges	1,354	1,560
Positive fair values from micro fair value hedges	344	396
Total	*1,698*	*1,956*

Trading assets

EUR million	30 Jun. 2018	31 Dec. 2017
Positive fair values from derivative financial instruments	*15,934*	*17,747*
Money market instruments	711	382
Bonds and debentures	5,128	5,796
Debentures and other fixed-income securities	*5,838*	*6,178*
Borrower's note loans	2,265	2,704
Other money market transactions	31	34
Other receivables	248	159
Receivables	*2,544*	*2,897*
Equities	311	718
Investment fund units	856	1,157
Equity instruments	*1,168*	*1,876*
Total	*25,484*	*28,698*

In particular, netting effects led to a decline in the reported fair values of derivatives held for trading. Repayments and disposals also reduced the carrying amounts of bonds, debentures and equity instruments.

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

EUR million	30 Jun. 2018	31 Dec. 2017
Bonds	60	n/a
Silent partner contributions	5	n/a
Debentures and other fixed-income securities	*65*	*n/a*
Receivables	*2,698*	*n/a*
Equities	12	n/a
Investment fund units	224	n/a
Equity investments	159	n/a
Shares in affiliates	46	n/a
Equity instruments	*442*	*n/a*
Total	*3,204*	*n/a*

16. Shares in investments accounted for using the equity method

EUR million	30 Jun. 2018	31 Dec. 2017
Associates	262	240
Joint ventures	4	4
Total	*266*	*245*

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

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

The following changes have arisen in »Non-current assets held for sale and disposal groups« since the previous year:

- An investment property was classified as held for sale in the first half of 2017. The intention to sell this property was given up in the first half of 2018. Accordingly, the property was reclassified to »Investment property«. This affects the Corporates Items reporting segment.
- Sales talks for two properties reported as »Property and equipment« began in the reporting period. The contract has already been signed for one property and the sale of the second is expected in the second half of 2018. The properties are allocated to the Corporate Items segment.

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

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

EUR million	30 Jun. 2018	31 Dec. 2017
Assets		
Investment property	0	104
Property and equipment	7	0
Total	*7*	*104*

18. Intangible assets

EUR million	30 Jun. 2018	31 Dec. 2017
Purchased software	134	147
Advance payments and cost for development and preparation	15	20
Internally generated intangible assets	28	27
Other	49	51
Total	*226*	*244*

19. Investment property

The fair value is calculated using the discounted cash flow method as described below. 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.

For commercial real estate, future income in the planning period is forecast based on the contractually agreed target rent or, after the contract period has expired, the market rent specific to the property. This is calculated using a measurement tool based on the discounted cash flow method.

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

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

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

EUR million	2018	2017
Carrying amount as at 31 December	*554*	*574*
Carrying amount as at 1 January	554	574
Additions	*75*	*6*
Disposals	0	– 8
Changes in the basis of consolidation	0	78
Reclassification to non-current assets or disposal groups held for sale	0	– 107
Reclassification from non-current assets or disposal groups held for sale	60	0
Currency translation differences	2	– 14
Changes in fair value from assets (through profit or loss)	7	25
Carrying amount as at 30 June/31 December	*699*	*554*

See note 32 for additional quantitative information.

20. Property and equipment

EUR million	30 Jun. 2018	31 Dec. 2017
Land and buildings	289	299
Leased assets under operating leases	84	93
Operating and office equipment	71	75
Technical equipment and machinery	12	13
Leased assets under finance leases	1	2
Advance payments and assets under construction	1	1
Total	*460*	*482*

21. Other assets

EUR million	30 Jun. 2018	31 Dec. 2017
Inventories	664	447
Receivables from tax authorities	34	39
Other miscellaneous assets	1,356	1,089
Total	*2,055*	*1,575*

The increase in inventories resulted from additions to various real estate projects. The rise in other miscellaneous assets is partly related to higher margin holdings. This also affected »Other liabilities« (see note 26).

22. Financial liabilities measured at amortized cost

Deposits from banks

The breakdown of deposits from banks by type of business is as follows:

EUR million	30 Jun. 2018	31 Dec. 2017
Securities repurchase transactions	6,609	3,276
Transmitted loans	26,215	25,540
Borrower's note loans	3,230	3,679
Overnight and term money	29,610	24,207
Public-sector registered covered bonds issued	513	718
Current account liabilities	2,129	2,028
Mortgage-backed registered covered bonds issued	218	300
Leases	255	268
Other liabilities	3,931	1,881
Total	*72,710*	*61,895*

In particular, overnight and term deposits and securities repurchase business rose as a result of new business with international banks.

The breakdown of deposits from banks by region is as follows:

EUR million	30 Jun. 2018	31 Dec. 2017
Banks within Germany	47,660	45,503
Banks outside Germany	25,050	16,392
Total	*72,710*	*61,895*

Deposits from customers

The breakdown of deposits from customers by type of business is as follows:

EUR million	30 Jun. 2018	31 Dec. 2017
Current account liabilities	42,351	41,464
Overnight and term money	29,161	21,542
Borrower's note loans	1,740	1,903
Securities repurchase transactions	1,300	1,445
Public-sector registered covered bonds issued	2,837	3,164
Savings deposits	6,556	6,370
Mortgage-backed registered covered bonds issued	668	716
Other liabilities	2,667	2,811
Total	*87,282*	*79,415*

The development in deposits from customers was essentially due to an increase in overnight and term deposits. The German states in particular increasingly turned to LBBW to invest their cash funds.

The breakdown of deposits from customers by region is as follows:

EUR million	30 Jun. 2018	31 Dec. 2017
Customers within Germany	75,726	68,257
Customers outside Germany	11,556	11,158
Total	*87,282*	*79,415*

Securitized liabilities

EUR million	30 Jun. 2018	31 Dec. 2017
Mortgage-backed covered bonds	9,627	9,591
Public-sector covered bonds	4,475	4,561
Other debentures	14,711	17,432
Issued debentures	*28,813*	*31,584*
Other securitized liabilities	*13,972*	*12,848*
Total	*42,785*	*44,432*

The change is due to the transition to IFRS 9, which requires the designation of transactions with accounting mismatches to the fair value option.

Subordinated capital

EUR million	30 Jun. 2018	31 Dec. 2017
Typical silent partners' contributions	1,060	1,104
Subordinated liabilities	4,188	4,158
Capital generated from profit participation rights	106	102
Total	*5,355*	*5,364*

23. Financial liabilities designated at fair value

EUR million	30 Jun. 2018	31 Dec. 2017
Borrower's note loans	892	687
Securitized liabilities	4,476	930
Subordinated deposits	176	158
Junior bonds	449	304
Money market transactions	85	83
Other	855	563
Total	*6,933*	*2,726*

The increase in this item was due in part to the reclassification of transactions with accounting mismatches to the fair value option in accordance with IFRS 9. New issues such as the covered mortgage bond increased these securitized liabilities further in the current financial year.

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

Financial liabilities mandatorily measured at fair value through profit or loss break down as follows:

EUR million	30 Jun. 2018	31 Dec. 2017
Negative fair values from derivative hedging instruments	2,858	3,315
Trading liabilities	21,961	21,882
Total	*24,819*	*25,196*

Negative fair values from derivative hedging instruments

EUR million	30 Jun. 2018	31 Dec. 2017
Negative fair values from portfolio fair value hedges	2,011	2,434
Negative fair values from micro fair value hedges	846	881
Total	*2,858*	*3,315*

Trading liabilities

EUR million	30 Jun. 2018	31 Dec. 2017
Negative fair values from derivatives	*14,363*	*15,493*
Delivery obligations from short sales of securities	2,020	1,289
Securitized liabilities	5,442	4,874
Borrower's note loans	101	83
Money market transactions	33	142
Other	2	1
Other trading liabilities	*7,598*	*6,388*
Total	*21,961*	*21,882*

There was a reduction in derivatives held for trading that – like the development under assets – was largely caused by netting effects.

25. Provisions

EUR million	30 Jun. 2018	31 Dec. 2017
Provisions for pensions	3,181	3,166
Provisions for litigation and recourse risk	187	191
Provisions for lending business	92	73
Other personnel-related provisions	101	124
Other provisions	252	243
Total	*3,812*	*3,796*

Allowances for losses on loans and securities for financial guarantees and loan commitments recognized in accordance with IFRS 9 are included in provisions for credit risks.

The following table shows the development of provisions for credit risks:

EUR million	Stage 1 12-month expected credit loss	Stage 2 Life-time expected credit loss	Stage 3 Credit impaired after initial recognition date	Total
Balance as at 1 January 2018	**21**	**20**	**50**	**92**
Changes	- 7	3	- 3	- 7
Transfer to stage 1	2	- 2	0	0
Transfer to stage 2	- 2	2	0	0
Transfer to stage 3	- 1	0	2	0
Additions	4	9	10	24
Reversals	- 10	- 6	- 15	- 31
Additions	10	0	0	10
Disposals	- 1	0	- 1	- 3
Balance as at 30 June 2018	*23*	*23*	*46*	*92*

26. Other liabilities

EUR million	30 Jun. 2018	31 Dec. 2017
Liabilities from		
Other taxes	71	52
Employment	15	36
Trade payables	114	105
Non-controlling interests	2	2
Finance leases	2	3
Advances received	69	32
Other miscellaneous liabilities	1,144	968
Total	*1,417*	*1,199*

The increase in other miscellaneous liabilities essentially resulted from higher margin holdings. This also affected »Other assets« (see note 21).

27. Equity

EUR million	30 Jun. 2018	31 Dec. 2017
Share capital	3,484	3,484
Capital reserve	8,240	8,240
Retained earnings	1,017	820
Other comprehensive income	123	371
Unappropriated profit/loss	206	416
Shareholders' equity	*13,070*	*13,331*
Equity attributable to non-controlling interests	25	46
Total	*13,095*	*13,377*

Cumulative actuarial gains and losses after tax of EUR – 824 million (previous year: EUR – 822 million) were reported in retained earnings.

As at the end of the current reporting period, a measurement effect after deferred taxes of EUR – 9 million (previous year: EUR 11 million) in connection with the measurement of LBBW's own credit rating was included in other comprehensive income.

Equity includes taxes recognized in other comprehensive income of EUR 398 million (previous year: EUR 354 million).

The detailed development of the individual components of the »Equity« item and the effect of the first-time adoption of IFRS 9 are shown in statement of changes in equity.

Notes on financial instruments

28. Allowances for losses on loans and securities

The allowances for losses on loans and advances recognized break down as follows:

EUR million	30 Jun. 2018	31 Dec. 2017
Loans and advances to banks	6	5
Loans and advances to customers	837	679
Debentures and other fixed-income securities	5	1
Financial assets measured at amortized cost	*848*	*685*
Debentures and other fixed-income securities	3	n/a
Financial assets measured at fair value through other comprehensive income	*3*	*n/a*
Total	*851*	*685*

Financial assets measured at amortized cost

The allowances for losses on loans and securities deducted from assets developed as follows:

EUR million	Stage 1 12-month expected credit loss	Stage 2 Life-time expected credit loss	Stage 3 Credit impaired after initial recognition date	Purchased or originated credit impaired (POCI)	Total
Balance as at 1 January 2018	*60*	*224*	*551*	*30*	*866*
Changes	– 25	26	– 35	– 4	– 38
Transfer to stage 1	10	– 9	– 1	0	0
Transfer to stage 2	– 7	8	– 1	0	0
Transfer to stage 3	– 13	– 2	15	0	0
Additions	13	57	79	0	149
Reversals	– 28	– 28	– 68	– 2	– 126
Utilization	0	0	– 59	– 3	– 61
Additions	31	0	0	0	31
Disposals	– 2	– 2	– 15	– 4	– 24
Other changes	0	0	12	1	13
Balance as at 30 June 2018	*63*	*248*	*513*	*23*	*848*

EUR million	Specific/ collective valuation allowance			Portfolio valuation allowance		
	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 2017	**1**	**718**	**65**	**10**	**99**	**10**
Utilization	0	- 183	- 17	0	0	0
Additions	0	181	22	2	46	9
Reversals	0	- 101	- 14	- 8	- 54	- 9
Change in present value brought about by the change in remaining lifetime (unwinding)	0	- 10	0	0	0	0
Changes resulting from exchange rate fluctuations and other changes	0	- 15	0	0	- 1	- 1
Balance as at 31 December 2017	*1*	*589*	*56*	*4*	*90*	*9*

Financial assets measured at fair value through other comprehensive income

Allowances for losses on loans and securities developed as follows:

EUR million	Stage 1 12-month expected credit loss	Stage 3 Credit impaired at initial recognition	Total
Balance as at 1 January 2018	*3*	*0*	*3*
Changes	- 1	1	0
Additions	0	1	2
Reversals	- 2	0	- 2
Balance as at 30 June 2018	*2*	*1*	*3*

29. Counterparty risk

The quantitative information on credit risk is based on the management approach. By contrast to the basis of consolidation for accounting purposes under IFRS, only the SüdLeasing Group is included in consolidation under the management approach. In line with internal risk management, the primary parameter in the information below is gross/net exposure. As a result of the first-time adoption of IFRS 9, the disclosures on impaired assets, default risk and concentrations are limited to the date 30 June 2018. Detailed information on IFRS 9 can be found in note 2 (»Changes and estimates«).

Collateral

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

The combined effect of netting and collateral agreements, credit derivatives (protection buy) and credit collateral (risk mitigation) in relation to the maximum counterparty risk of EUR 332 billion as at 30 June 2018 is EUR 140 billion or 42.3 % in total (previous year: 40.9 %).

The increased share of risk mitigation is mainly on account of higher weightings for repo/lending transactions. The development of credit collateral has been stable since 31 December 2017.

The following table shows the maximum counterparty risk and the effect of risk-mitigating measures.

30 Jun. 2018 EUR million	Gross exposure	Netting/ collateral	Credit derivatives (protection buy)	Credit collateral	Net exposure
Financial assets measured at fair value					
Financial assets mandatorily measured at fair value through profit or loss	**63,219**	**42,945**	**6,985**	**437**	**12,852**
Trading assets	59,083	39,074	6,985	415	12,610
Derivatives	47,740	35,997	6,486	409	4,849
Equity instruments	1,243	1,148	0	0	95
Debentures and other fixed-income securities	6,185	801	71	0	5,313
Receivables	3,915	1,128	428	6	2,353
Financial instruments measured at fair value through profit or loss, not classified as held for trading, and equity instruments	3,080	221	0	1,764	1,095
Equity instruments	564	220	0	0	344
Debentures and other fixed-income securities	59	0	0	0	59
Receivables	2,457	0	0	1,764	692
Positive fair values from derivative hedging instruments	4,136	3,871	0	23	242
Financial assets designated at fair value	**769**	**0**	**0**	**18**	**751**
Debentures and other fixed-income securities	45	0	0	0	45
Receivables	724	0	0	18	706
Financial assets measured at fair value through other comprehensive income	**23,622**	**0**	**0**	**0**	**23,622**
Equity instruments	1,964	0	0	0	1,964
Debentures and other fixed-income securities	19,675	0	0	0	19,675
Receivables	1,983	0	0	0	1,983
Financial assets measured at amortized cost					
Cash and cash equivalents	**6,220**	**0**	**0**	**0**	**6,220**
Loans and advances to banks	**64,207**	**24,041**	**0**	**602**	**39,564**
Loans and advances to customers	**114,484**	**25,720**	**0**	**34,850**	**53,914**
Debentures and other fixed-income securities	**1,178**	**0**	**0**	**0**	**1,178**
Total	*276,779*	*92,927*	*6,985*	*37,672*	*139,196*
Loan commitments and other agreements	54,961	0	0	2,794	52,167
Total exposure	*331,740*	*92,927*	*6,985*	*40,465*	*191,364*

31 Dec. 2017 EUR million	Gross exposure	Netting/ collateral	Credit derivatives (protection buy)	Credit collateral	Net exposure
Financial assets measured at fair value					
Financial assets mandatorily measured at fair value through profit or loss	**62,211**	**40,399**	**7,828**	**322**	**13,664**
Trading assets	58,015	36,392	7,828	314	13,482
Financial instruments measured at fair value through profit or loss, not classified as held for trading, and equity instruments	n/a	n/a	n/a	n/a	n/a
Positive fair values from derivative hedging instruments	4,196	4,007	0	8	182
Financial assets designated at fair value	**629**	**213**	**0**	**0**	**416**
Financial assets measured at fair value through other comprehensive income	**21,954**	**0**	**0**	**0**	**21,954**
Debentures and other fixed-income securities	21,954	0	0	0	21,954
Financial assets measured at amortized cost					
Cash and cash equivalents	**6,118**	**0**	**0**	**0**	**6,118**
Loans and advances to banks	**55,419**	**21,119**	**0**	**683**	**33,616**
Loans and advances to customers	**106,926**	**15,638**	**0**	**36,965**	**54,324**
Debentures and other fixed-income securities	**1,657**	**0**	**0**	**0**	**1,657**
Total	*254,915*	*77,368*	*7,828*	*37,969*	*131,749*
Loan commitments and other agreements	52,395	0	0	2,518	49,877
Total exposure	*307,309*	*77,368*	*7,828*	*40,487*	*181,625*

Of the total portfolio of EUR 332 billion as at 30 June 2018, transactions with a gross exposure of EUR 259 billion are subject to the impairment provisions of IFRS 9. The overwhelming portion of these assets (99.6 %) is not impaired.

Impaired assets

Impaired assets in accordance with IFRS 9 are transactions in default (rating 16 to 18). These rating classes accounted for gross exposure of EUR 1.1 billion as at 30 June 2018.

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

30 Jun. 2018

EUR million	Gross exposure	Credit collateral	Net exposure
Financial assets measured at amortized cost			
Loans and advances to banks	**1**	**0**	**1**
Loans and advances to customers	**921**	**247**	**674**
Total	*922*	*247*	*675*
Loan commitments and other agreements	130	21	109
Total exposure	*1,052*	*268*	*784*

Default risk and concentrations

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

The following table presents gross exposure by rating class:

30 Jun. 2018 EUR million	Stage 1 12-month expected credit loss	Stage 2 Life-time expected credit loss	Stage 3 Credit impaired since recognition	Impaired at initial recognition	Total
1 (AAAA)	28,290	0	0	0	28,290
1 (AAA) – 1 (A-)	136,190	515	0	2	136,707
2 – 5	59,443	5,827	0	17	65,287
6 – 8	13,683	3,356	0	0	17,039
9 – 10	2,950	1,670	0	5	4,626
11 – 15	1,038	1,236	0	14	2,289
16 – 18 (default)[1]	0	0	1,019	33	1,052
Other[2]	3,500	82	0	0	3,582
Total	*245,094*	*12,686*	*1,019*	*72*	*258,871*

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. The net exposure is presented before impairment.
2 Includes non-rated transactions, in particular rating waivers.

94.7 % of assets are assigned to stage 1 as at 30 June 2018, and another 4.9 % to stage 2. Stage 3 and the category »Impaired at initial recognition« are not significant.

The following table presents gross exposure by sector:

30 Jun. 2018 EUR million	Stage 1 12-month expected credit loss	Stage 2 Life-time expected credit loss	Stage 3 Credit impaired since recognition	Impaired at initial recognition	Total
Financials	**119,196**	**687**	**14**	**5**	**119,902**
of which transactions under specific state liability[1]	12,086	0	0	3	12,089
Corporates	**74,170**	**7,625**	**780**	**41**	**82,616**
Automotive	12,271	1,270	82	0	13,623
Construction	6,618	807	90	3	7,518
Chemicals and commodities	5,360	375	65	3	5,803
of which chemicals	2,635	159	2	0	2,796
of which commodities	2,725	216	63	3	3,007
Retail and consumer goods	13,082	1,148	166	7	14,402
of which consumer goods	9,368	392	96	2	9,858
of which durables	3,714	756	69	4	4,544
Industry	9,229	1,151	102	4	10,486
Pharmaceuticals and healthcare	4,642	528	17	3	5,190
TM and electronics/IT	5,647	325	71	0	6,042
Transport and logistics	5,252	399	21	0	5,672
Utilities and energy	6,512	971	114	3	7,599
of which utilities and disposal companies	4,197	337	40	3	4,577
of which renewable energies	2,314	634	73	0	3,022
Other	5,559	651	53	18	6,281
Real Estate	**24,237**	**2,056**	**128**	**12**	**26,433**
Commercial real estate (CRE)	17,519	1,794	101	9	19,423
Housing	6,718	262	27	2	7,010
Public sector	**17,683**	**208**	**0**	**0**	**17,891**
Private individuals	**9,807**	**2,111**	**97**	**14**	**12,029**
Total	*245,094*	*12,686*	*1,019*	*72*	*258,871*

1 This figure shows transactions with a statutory guarantee (*Gewährträgerhaftung*) and transactions with central banks and banks with a public-sector background.

The exposures in financials and the public sector (and the German public sector in particular) generally have very good credit quality with a low exposure share in stage 2. The corporates and real estate portfolio also has a low exposure share of less than 10% in stage 2. Nonetheless, some corporate sectors (e.g. utilities and energy or construction) are below the average of the corporate portfolio as a whole in terms of their stage 2 share.

The following table presents gross exposure by region:

30 Jun. 2018 EUR million	Stage 1 12-month expected credit loss	Stage 2 Life-time expected credit loss	Stage 3 Credit impaired since recognition	Impaired at initial recognition	Total
Germany	147,176	9,819	877	37	157,909
Western Europe (excluding Germany)	65,005	1,452	66	23	66,547
North America	22,075	708	5	0	22,789
Asia/Pacific	5,647	126	9	0	5,782
Eastern Europe	2,295	442	20	2	2,759
Latin America	1,552	128	41	9	1,730
Africa	403	12	0	0	415
Other[1]	941	0	0	0	941
Total	*245,094*	*12,686*	*1,019*	*72*	*258,871*

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

In particular, Eastern Europe has a higher stage 2 exposure share as at 30 June 2018 than the average for the overall portfolio. However, this region accounts for only a small share of the portfolio.

The following table presents gross exposure by size class:

30 Jun. 2018 EUR million	Stage 1 12-month expected credit loss	Stage 2 Life-time expected credit loss	Stage 3 Credit impaired since recognition	Impaired at initial recognition	Total
Up to EUR 10 million	26,262	4,836	641	31	31,770
Up to EUR 50 million	27,541	3,027	373	40	30,982
Up to EUR 100 million	22,312	1,732	0	0	24,044
Up to EUR 500 million	71,493	2,799	3	0	74,295
Up to EUR 1 billion	28,960	144	2	0	29,106
Over EUR 1 billion	68,526	148	0	0	68,675
Total	*245,094*	*12,686*	*1,019*	*72*	*258,871*

Large-volume exposures in excess of EUR 500 million are almost exclusively allocated to stage 1. Nearly two thirds of the stage 2 transactions amount to less than EUR 50 million as at 30 June 2018.

Forbearance

As at 30 June 2018, the LBBW Group held assets with a net carrying amount of EUR 642 million (previous year: EUR 783 million) for which forbearance measures were adopted. Modifications of terms and conditions were essentially granted. A EUR 191 million (previous year: EUR 250 million) sub-portfolio of the assets for which forbearance measures have been adopted comprises impaired assets.

LBBW has received guarantees of EUR 59 million (previous year: EUR 132 million) for assets with forbearance measures.

The report on risks and opportunities contains further information on impairment on the portfolio.

30. Fair value measurement

The disclosures in the following notes essentially satisfy the requirements of IFRS 13 and IFRS 7. Further IFRS 7 disclosures can be found in the report on risks and opportunities.

Fair value is defined in accordance with IFRS 13 as the price at which an asset could be bought and sold at the measurement date in an orderly transaction between market participants.

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

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

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

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

The fair values of holdings measured at fair value are subject to the LBBW Group's internal controls and processes that set out the standards for the independent review or validation of fair values. These controls and procedures are monitored by the IPV and Market Data organizational unit within the Risk Controlling division. The models, the data used in them and the resulting fair values are regularly reviewed by the Market Risk Controlling Methodology organizational unit.

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

Financial instruments	Measurement models	Material inputs
Interest rate swaps and options	Net present value method, Black-Scholes, replication and Copula-based models, Markov functional model and Libor market models	Yield curves, swaption volatility, cap volatility, correlations, mean reversion
Forward rate agreements	Net present value method	Yield curves
Forward commodity agreements, currency forwards	Net present value method	Commodity rates/exchange rates, yield curves
Stock/index options, equity index/dividend futures	Black-Scholes, local volatility model, present value method	Equity prices, share volatility, dividends, interest rates (swap, repo)
Currency options	Garman-Kohlhagen (modified Black-Scholes)	FX rates, yield curves, FX volatility
Commodity options	Garman-Kohlhagen (modified Black-Scholes)	Commodity rates, yield curves, volatility
Credit derivatives	Intensity model, credit correlation model	Credit spreads, yield curves, correlations
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 notes 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
Securitized transactions	Net present value method	Liquidity spreads, yield curves, prepayments, arrears and default rates, loss severity

Non-current assets and disposal groups held for sale, in addition to liabilities from disposal groups, are measured and material inputs are applied in line with the original balance sheet items.

The financial instruments shown are allocated to LBBW's risk classes as follows:

Class	Financial instruments
Financial assets measured at fair value	
Financial assets mandatorily measured at fair value through profit or loss	
Trading assets	
Derivatives	Currency options, interest rate swaps and interest rate options, credit derivatives, equity/index options, equity index/dividend futures, commodity options
Equity instruments	Investment fund units, equities
Debentures and other fixed-income securities	Securities, forward security agreements, money market transactions, borrower's note loans
Receivables	Borrower's note loans, money market transactions, loans
Financial instruments measured at fair value through profit or loss, not classified as held for trading, and equity instruments	
Equity instruments	Investment units, equity investments, shares in affiliates, equities
Debentures and other fixed-income securities	Bonds
Receivables	Borrower's note loans, money market transactions, loans
Positive fair values from derivative hedging instruments	Interest rate swaps and cross-currency interest rate swaps
Financial assets designated at fair value	
Debentures and other fixed-income securities	Money market transactions, bonds and debentures
Receivables	Borrower's note loans, money market transactions, loans
Financial assets measured at fair value through other comprehensive income	
Equity instruments	Investment units, equity investments, shares in affiliates, equities
Debentures and other fixed-income securities	Money market transactions, bonds and debentures
Receivables	Borrower's note loans, money market transactions, loans
Non-current assets held for sale and disposal groups	According to the respective balance sheet item
Financial assets measured at amortized cost	
Cash and cash equivalents	Cash, balances with central banks, public-sector bills and bills of exchange
Loans and advances to banks	Loans, borrower's note loans, securities repurchase transactions, money market transactions
Loans and advances to customers	Loans, borrower's note loans, securities repurchase transactions, money market transactions
Debentures and other fixed-income securities	Money market transactions, bonds and debentures
Non-current assets held for sale and disposal groups	According to the respective balance sheet item
Financial liabilities measured at fair value	
Financial liabilities mandatorily measured at fair value through profit or loss	
Trading liabilities	
Derivatives	Currency options, interest rate swaps and interest rate options, credit derivatives, equity/index options, equity index/dividend futures, commodity options
Delivery obligations from short sales of securities	Delivery obligations from short sales of securities
Deposits	Borrower's note loans, money market transactions
Securitized liabilities	Issued debentures
Negative fair values from derivative hedging instruments	Interest rate swaps and cross-currency interest rate swaps
Financial liabilities designated at fair value	
Securitized liabilities	Issued debentures
Other financial liabilities	Subordinated deposits, borrower's note loans, money market transactions
Liabilities from disposal groups	According to the respective balance sheet item
Financial liabilities measured at amortized cost	
Deposits from banks	Borrower's note loans, loans, forwards, money market transactions, securities repurchase transactions
Deposits from customers	Borrower's note loans, loans, forwards, money market transactions, securities repurchase transactions
Securitized liabilities	Issued debentures, money market transactions
Subordinated capital	Bonds, participation certificates
Liabilities from disposal groups	According to the respective balance sheet item

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

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

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

Simple derivatives traded on active markets are measured using recognized methods that, at most, use unobservable inputs to an insignificant extent.

Derivatives whose fair value is calculated on the basis of complex methods using unobservable inputs with a material influence on valuation are assigned to level III of the measurement hierarchy. In order to reduce price uncertainty from the unobservable inputs 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 as far as possible.

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

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

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

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

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

- Recognition of 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 or inputs used, for example, model valuation adjustments for specific equities, interest rate and credit derivatives.
- Day one profit or loss on specific complex derivatives and loans measured at fair value

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

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

31. Fair value of financial instruments

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

Assets

EUR million	30 Jun. 2018 Carrying amount	Fair value
Financial assets measured at fair value		
Financial assets mandatorily measured at fair value	**30,386**	**30,386**
Trading assets	25,484	25,484
Derivatives	15,934	15,934
Equity instruments	1,168	1,168
Debentures and other fixed-income securities	5,838	5,838
Receivables	2,544	2,544
Financial instruments measured at fair value through profit or loss, not classified as held for trading, and equity instruments	3,204	3,204
Equity instruments	442	442
Debentures and other fixed-income securities	65	65
Receivables	2,698	2,698
Positive fair values from derivative hedging instruments	1,698	1,698
Financial assets designated at fair value	**967**	**967**
Debentures and other fixed-income securities	46	46
Receivables	921	921
Financial assets measured at fair value through other comprehensive income	**23,045**	**23,045**
Equity instruments	530	530
Debentures and other fixed-income securities	20,258	20,258
Receivables	2,257	2,257
Financial assets measured at amortized cost		
Cash and cash equivalents	**32,522**	**32,522**
Loans and advances to banks	**55,716**	**57,432**
Loans and advances to customers	**109,213**	**115,731**
Debentures and other fixed-income securities	**1,248**	**1,253**

EUR million	31 Dec. 2017	
	Carrying amount	Fair value
Cash and cash equivalents	**22,729**	**22729**
Assets measured at fair value		
Trading assets	28,698	28,698
Derivatives	17,747	17,747
Currency-linked derivatives	2,889	2,889
Interest rate-linked derivatives	14,118	14,118
Credit derivatives	125	125
Equity/index-linked derivatives	548	548
Commodity-linked and other derivatives	68	68
Equity instruments	1,876	1,876
Securities	6,178	6,178
Receivables	2,897	2,897
Financial assets designated at fair value	732	732
Equity instruments	215	215
Securities	110	110
Loans and receivables	408	408
Positive fair values from derivative hedging instruments	1,956	1,956
Interest rate derivatives	1,946	1,946
Cross-currency interest rate swaps	10	10
Financial investments (AfS)	21,185	21,185
Equity instruments	772	772
Securities	20,413	20,413
Assets measured at amortized cost		
Loans and advances to banks after allowances for losses on loans and advances	48,179	48,803
Public-sector loans	26,461	27,248
Securities repurchase transactions	10,148	9,974
Other receivables	11,570	11,581
Loans and advances to customers after allowances for losses on loans and advances	107,652	112,254
Public-sector loans	17,468	19,724
Mortgage loans	30,449	31,479
Securities repurchase transactions	10,830	10,827
Other receivables	48,906	50,224
of which finance leases	5,302	5,555
Financial investments (LaR)	1,663	1,678
Equity instruments	5	5
Securitized transactions	399	404
Other securities	1,259	1,269

Equity and liabilities

EUR million	30 Jun. 2018	
	Carrying amount	Fair value
Financial liabilities measured at fair value		
Financial liabilities mandatorily measured at fair value	**24,819**	**24,819**
Trading liabilities	21,961	21,961
Derivatives	14,363	14,363
Delivery obligations from short sales of securities	2,020	2,020
Deposits	136	136
Securitized liabilities	5,442	5,442
Negative fair values from derivative hedging instruments	2,858	2,858
Financial liabilities designated at fair value	**6,933**	**6,933**
Securitized liabilities	4,925	4,925
Other financial liabilities	2,008	2,008
Financial liabilities measured at amortized cost		
Deposits from banks	**72,710**	**73,645**
Deposits from customers	**87,282**	**88,498**
Securitized liabilities	**42,785**	**43,317**
Subordinated capital	**5,355**	**5,522**

EUR million	31 Dec. 2017 Carrying amount	Fair value
Liabilities measured at fair value		
Trading liabilities	21,882	21,882
Derivatives	15,493	15,493
Currency-linked derivatives	2,981	2,981
Interest rate-linked derivatives	11,349	11,349
Credit derivatives	306	306
Equity/index-linked derivatives	779	779
Commodity-linked and other derivatives	78	78
Delivery obligations from short sales of securities	1,289	1,289
Deposits	225	225
Securitized liabilities	4,874	4,874
Other financial liabilities	1	1
Financial liabilities designated at fair value	2,726	2,726
Deposits	1,492	1,492
Securitized liabilities	1,234	1,234
Negative fair values from derivative hedging instruments	3,315	3,315
Interest rate derivatives	3,288	3,288
Cross-currency interest rate swaps	27	27
liabilities measured at amortized cost		
Deposits from banks	61,895	62,789
Securities repurchase transactions	3,276	3,153
Borrower's note loans	3,679	3,798
Other liabilities	54,941	55,838
Deposits from customers	79,415	80,549
Current account liabilities	41,464	41,456
Borrower's note loans	1,903	2,038
Registered covered bonds	3,880	4,608
Securities repurchase transactions	1,445	1,430
Other liabilities	30,723	31,018
Securitized liabilities	44,432	45,031
Other liabilities – of which finance leases	3	3
Subordinated capital	5,364	5,636
Subordinated liabilities	4,158	4,480
Capital generated from profit participation rights	102	136
Silent partners' contributions	1,104	1,021

See note 17 for the detailed breakdown and measurement of assets and disposal groups held for sale.

32. Fair value hierarchy

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

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

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

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

Assets

30 Jun. 2018 EUR million	Prices traded on active markets (level I)	Measurement method - on the basis of externally observable parameters (level II)	Measurement method - on the basis of externally unobservable parameters (level III)
Financial assets measured at fair value			
Financial assets mandatorily measured at fair value through profit or loss	**1,753**	**27,729**	**903**
Trading assets	1,728	23,477	278
Derivatives	26	15,728	180
Equity instruments	313	855	0
Debentures and other fixed-income securities	1,387	4,451	0
Receivables	3	2,442	99
Financial instruments measured at fair value through profit or loss, not classified as held for trading, and equity instruments	25	2,554	625
Equity instruments	20	224	198
Debentures and other fixed-income securities	5	54	5
Receivables	0	2,276	422
Positive fair values from derivative hedging instruments	0	1,698	0
Financial assets designated at fair value	**20**	**796**	**151**
Debentures and other fixed-income securities	20	26	0
Receivables	0	769	151
Financial assets measured at fair value through other comprehensive income	**16,035**	**7,004**	**5**
Equity instruments	525	0	4
Debentures and other fixed-income securities	15,510	4,747	1
Receivables	0	2,257	0
Investment property	**0**	**0**	**699**

31 Dec. 2017 EUR million	Prices traded on active markets (level I)	Measurement method - on the basis of externally observable parameters (level II)	Measurement method - on the basis externally unobservable parameters (level III)
Cash and cash equivalents	**164**	**22,565**	**0**
Assets measured at fair value			
Trading assets	2,978	25,385	334
Derivatives	63	17,463	222
Currency-linked derivatives	0	2,816	72
Interest rate-linked derivatives	0	13,974	144
Credit derivatives	0	125	0
Share/index-linked derivatives	0	542	6
Commodity-linked and other derivatives	63	5	0
Equity instruments	707	1,169	0
Securities	2,208	3,970	0
Receivables	1	2,784	112
Financial assets designated at fair value	20	702	10
Equity instruments	0	213	2
Securities	20	82	7
Receivables	0	408	0
Positive fair values from hedging derivatives	0	1,956	0
Interest rate-linked derivatives	0	1,946	0
Cross-currency interest rate swaps	0	10	0
Financial investments (AfS)	16,770	4,213	203
Equity instruments	577	0	195
Securities	16,192	4,213	8
Investment property	**0**	**0**	**554**
Non-current assets held for sale and disposal groups	**0**	**0**	**104**

Equity and liabilities

30 Jun. 2018 EUR million	Prices traded on active markets (level I)	Measurement method - on the basis of externally observable parameters (level II)	Measurement method - on the basis externally unobservable parameters (level III)
Financial liabilities measured at fair value			
Financial liabilities mandatorily measured at fair value through profit or loss	**2,064**	**22,524**	**230**
Trading liabilities	2,064	19,667	230
Derivatives	48	14,085	230
Delivery obligations from short sales of securities	2,014	6	0
Deposits	2	133	0
Securitized liabilities	0	5,442	0
Negative fair values from hedging derivatives	0	2,858	0
Financial liabilities designated at fair value	**0**	**6,423**	**511**
Securitized liabilities	0	4,531	394
Other financial liabilities	0	1,892	117

31 Dec. 2017 EUR million	Prices traded on active markets (level I)	Measurement method - on the basis of externally observable parameters (level II)	Measurement method - on the basis externally unobservable parameters (level III)
Liabilities measured at fair value			
Trading liabilities	**1,324**	**20,276**	**281**
Derivatives	37	15,175	281
Currency-linked derivatives	0	2,963	17
Interest rate-linked derivatives	0	11,226	123
Credit derivatives	0	172	135
Share/index-linked derivatives	0	773	6
Commodity-linked and other derivatives	37	41	0
Delivery obligations from short sales of securities	1,287	2	0
Deposits	0	225	0
Securitized liabilities	0	4,874	0
Other financial liabilities	1	0	0
Financial liabilities designated at fair value	**0**	**2,112**	**613**
Deposits	0	1,376	116
Securitized liabilities	0	737	497
Negative fair values from hedging derivatives	**0**	**3,315**	**0**
Interest rate-linked derivatives	0	3,288	0
Cross-currency interest rate swaps	0	27	0

Transfers between levels

If the main parameters used in fair value measurement change, the classification in the fair value hierarchy is also adjusted. As at the end of the reporting period, the necessary reclassifications between levels I to III are carried out based on defined quality criteria for the market data used in measurement. Prompt availability, volume, executability and bid-offer spreads of the market data used play a particular role.

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

The following reclassifications were made between levels I and II of the fair value hierarchy since the end of the last reporting period:

Assets

	Reclassification from level I to level II		Reclassification from level II to level I	
EUR million	**30 Jun. 2018**	**31 Dec. 2017**	**30 Jun. 2018**	**31 Dec. 2017**
Financial assets measured at fair value				
Financial assets mandatorily measured at fair value through profit or loss	**57**	**28**	**9**	**82**
Trading assets	57	28	9	82
Equity instruments	1	0	0	1
Debentures and other fixed-income securities	56	28	9	80
Financial assets measured at fair value through other comprehensive income	**169**	**428**	**176**	**16**
Debentures and other fixed-income securities	169	428	176	16

In the first half of 2018, LBBW reclassified instruments from level I to II of the fair value hierarchy as there were no longer quoted prices from active markets for the corresponding financial instruments. Instruments were also reclassified in the other direction as quoted prices from active markets became available again.

Development of level III.

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

Assets

	Financial assets measured at fair value through other comprehensive income		Financial assets designated at fair value
	Equity instruments	Debentures and other fixed-income securities	Receivables
EUR million			
Carrying amount as at 1 January 2018	*6*	*2*	*154*
Gains and losses recognized in net consolidated profit/loss	0	0	– 3
Net interest income and current net income from equity instruments	0	0	– 2
Net gains/losses from financial instruments measured at fair value through profit or loss	0	0	– 1
Other earnings items	0	0	0
Income and expenses recognized in other comprehensive income[1]	– 1	– 1	0
Additions through acquisitions	0	0	0
Disposals through sales	0	0	0
Repayments/offsetting	0	0	0
Other changes	0	0	0
Reclassification from level III	0	0	0
Carrying amount as at 30 June 2018	*4*	*1*	*151*
of which unrealized gains and losses recognized in net consolidated profit/loss for financial instruments held as at the reporting date	0	0	– 3
Net interest income and current net income from equity instruments	0	0	– 2
Net gains/losses from financial instruments measured at fair value through profit or loss	0	0	– 1
Other earnings items	0	0	0

1 Amounts recognized under »Revaluation reserve«.

	Financial assets mandatorily measured at fair value through profit or loss						Investment property	Non-current assets held for sale and disposal groups	Total
	Trading assets			Financial instruments measured at fair value through profit or loss, not classified as held for trading, and financial investments in equity instruments					
	Derivatives	Equity instruments	Receivables	Equity instruments	Debentures and other fixed-income securities	Receivables			
	219	*2*	*112*	*189*	*13*	*460*	*554*	*104*	*1,816*
	- 17	0	- 4	- 2	0	- 38	11	2	- 52
	0	0	0	0	0	0	0	0	- 2
	- 17	0	- 4	- 2	0	- 39	0	0	- 63
	0	0	0	0	0	0	11	2	13
	0	0	0	0	0	0	0	0	- 3
	0	0	88	30	0	0	75	0	194
	0	0	- 93	- 19	0	0	0	- 47	- 159
	- 23	- 1	- 5	0	0	0	0	0	- 29
	0	0	0	0	0	0	59	- 59	- 1
	0	0	0	0	- 7	0	0	0	- 7
	180	*0*	*99*	*198*	*5*	*422*	*699*	*0*	*1,759*
	- 17	0	- 4	- 2	0	- 38	11	2	- 52
	0	0	0	0	0	0	0	0	- 2
	- 17	0	- 4	- 2	0	- 39	0	0	- 63
	0	0	0	0	0	0	11	2	13

31 Dec. 2017	Trading assets				
	Derivatives			Securities	Receivables
EUR million	Currency-linked derivatives	Interest rate-linked derivatives	Share/index-linked derivatives		
Carrying amount as at 1 January 2017	*116*	*213*	*4*	*0*	*538*
Gains and losses recognized in net consolidated profit/loss	– 43	– 58	6	5	0
of which net interest income	– 2	0	0	0	0
of which net trading income	– 42	– 58	6	5	0
of which net gains/losses from financial investments	0	0	0	0	0
of which other earnings items	0	0	0	0	0
Income and expenses recognized in other comprehensive income[1]	0	0	0	0	0
Additions through acquisitions	0	0	0	0	112
Disposals through sales	0	0	0	– 5	– 529
Repayments/offsetting	– 1	– 20	– 4	0	– 9
Changes in the scope of consolidation	0	0	0	0	0
Changes from foreign currency translation	0	0	0	0	0
Reclassification to level III	0	8	0	0	0
Transfers in accordance with IFRS 5	0	0	0	0	0
Carrying amount as at 31 December 2017	*72*	*144*	*6*	*0*	*112*
of which unrealized gains and losses recognized in net consolidated profit/loss for financial instruments held as at the reporting date	– 43	– 58	6	0	0
of which net interest income	– 2	0	0	0	0
of which net trading income	– 42	– 58	6	0	0
of which net gains/losses from financial investments	0	0	0	0	0
of which other earnings items	0	0	0	0	0

1 Amounts recognized under »Revaluation reserve«.

	Financial assets designated at fair value		Financial investments (AfS)		Investment property	Non-current assets held for sale and disposal groups	Total
	Equity instruments	Securities	Equity instruments	Securities			
	4	*0*	*376*	*8*	*574*	*80*	*1,913*
	0	0	- 56	0	21	- 23	- 148
	0	0	0	0	0	0	- 1
	0	0	0	0	0	0	- 88
	0	0	- 56	0	0	- 27	- 83
	0	0	0	0	21	4	25
	0	0	17	0	0	- 1	16
	0	0	4	0	6	0	122
	- 2	0	- 59	0	- 8	- 59	- 662
	0	0	- 87	0	0	0	- 121
	0	0	1	0	78	0	79
	0	0	0	0	- 10	0	- 10
	0	7	0	0	0	0	15
	0	0	0	0	- 107	107	0
	2	*7*	*195*	*8*	*554*	*104*	*1,205*
	0	0	- 1	0	20	4	- 72
	0	0	0	0	0	0	- 1
	0	0	0	0	0	0	- 94
	0	0	- 1	0	0	0	- 1
	0	0	0	0	20	4	24

Equity and liabilities

	Financial liabilities designated at fair value		Financial liabilities mandatorily measured at fair value through profit or loss	Total
	Securitized liabilities	Other financial liabilities	Trading liabilities	
EUR million			Derivatives	
Carrying amount as at 1 January 2018	*497*	*116*	*281*	*895*
Gains and losses recognized in net consolidated profit/loss	4	0	– 48	– 43
Net interest income and current net income from equity instruments	– 1	– 1	3	1
Net gains/losses from financial instruments measured at fair value through profit or loss	6	1	– 50	– 44
Income and expenses recognized in other comprehensive income[1]	*1*	0	0	1
Repayments/offsetting	– 108	0	– 4	– 112
Carrying amount as at 30 June 2018	*394*	*117*	*230*	*741*
of which unrealized gains and losses recognized in net consolidated profit/loss for financial instruments held as at the reporting date	4	0	– 48	– 43
Net interest income and current net income from equity instruments	– 1	– 1	3	1
Net gains/losses from financial instruments measured at fair value through profit or loss	6	1	– 50	– 44

1 Amounts recognized under »Revaluation reserve«.

31 Dec. 2017	Trading liabilities				Financial assets designated at fair value		Total
	Derivatives				Deposits	Securitized liabilities	
EUR million	Currency-related derivatives	Interest rate-linked derivatives	Credit derivatives	Share/index-linked derivative			
Carrying amount as at 31 December 2016	*11*	*194*	*123*	*4*	*38*	*587*	*957*
Gains and losses recognized in net consolidated profit/loss	7	- 54	12	6	- 2	- 60	- 91
of which net interest income	- 1	0	0	0	0	3	2
of which net trading income	8	- 54	12	6	0	0	- 28
of which net gains/losses from financial instruments designated at fair value	0	0	0	0	- 2	- 63	- 65
Income and expenses recognized in other comprehensive income[1]	0	0	0	0	0	- 2	- 2
Disposals through sales	0	0	0	0	0	- 8	- 8
Repayments/offsetting	0	- 20	0	- 4	0	- 20	- 44
Reclassification to level III	0	4	0	0	79	0	83
Carrying amount as at 31 December 2017	*17*	*123*	*135*	*6*	*116*	*497*	*895*
of which unrealized gains and losses recognized in net consolidated profit/loss for financial instruments held as at the reporting date	7	- 54	12	6	- 2	- 60	- 91
of which net interest income	- 1	0	0	0	0	3	2
of which net trading income	8	- 55	12	6	0	0	- 28
of which net gains/losses from financial instruments designated at fair value	0	0	0	0	- 2	- 63	- 65

1 Amounts recognized under »Revaluation reserve«.

Sensitivity analysis level III

If the model value of financial instruments is based on unobservable market parameters, alternative parameters are used to determine the potential estimation uncertainty. For most of the securities and derivatives classified as level III, only one unobservable parameter is included in the fair value calculation, preventing any interactions between level III parameters. The overall sensitivity of the products whose fair value calculation includes more than one unobservable parameter is immaterial. Interactions between these inputs have therefore not been calculated.

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

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

Assets

EUR million	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	
	30 Jun. 2018	31 Dec. 2017	30 Jun. 2018	31 Dec. 2017
Financial assets measured at fair value				
Financial assets mandatorily measured at fair value through profit or loss	**22.0**	**5.4**	**- 20.5**	**- 4.0**
Trading assets	4.2	5.4	- 3.0	- 4.0
Derivatives	4.2	4.6	- 3.0	- 3.2
Receivables	0.0	0.8	0.0	- 0.7
Financial instruments measured at fair value through profit or loss, not classified as held for trading, and equity instruments	17.9	n/a	- 17.5	n/a
Equity instruments	3.2	n/a	- 4.5	n/a
Receivables	14.7	n/a	- 13.0	n/a
Financial assets designated at fair value	**0.0**	**0.0**	**- 0.1**	**0.0**
Receivables	0.0	0.0	- 0.1	0.0
Financial assets measured at fair value through other comprehensive income	**0.0**	**5.0**	**0.0**	**- 3.7**
Equity instruments	0.0	5.0	0.0	- 3.7
Total	*22.0*	*10.4*	*- 20.6*	*- 7.7*

Equity and liabilities

EUR million	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	
	30 Jun. 2018	31 Dec. 2017	30 Jun. 2018	31 Dec. 2017
Financial liabilities measured at fair value				
Financial liabilities mandatorily measured at fair value through profit or loss	**7.6**	**7.4**	**- 9.1**	**- 9.1**
Trading liabilities	7.6	7.4	- 9.1	- 9.1
Derivatives	7.6	7.4	- 9.1	- 9.1
Financial liabilities designated at fair value	**1.0**	**0.1**	**- 0.6**	**- 0.1**
Securitized liabilities	1.0	0.1	- 0.6	- 0.1
Total	*8.6*	*7.5*	*- 9.7*	*- 9.2*

Significant unobservable level III parameters

The significant unobservable 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 unobservable parameters on which level III measurements were based. As the financial instruments in question differ significantly, the range of certain parameters can be considerable.

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

Assets

30 Jun. 2018 EUR million	Measurement methods	Significant unobservable parameters	Range	Parameter shift
Financial assets measured at fair value				
Financial assets mandatorily measured at fair value through profit or loss				
Trading assets				
Derivatives		Interest rate correlation	– 81 % – 99 %	rel. – 20 %/+ 10 %
		Currency correlation	35 %	abs. – 30 %/+ 30 %
	Option price models	Other model parameters	– 0.72 – 5.7	rel. – 12 %/+ 12 %
Financial instruments measured at fair value through profit or loss, not classified as held for trading, and equity instruments				
Receivables	Net present value method	Credit spread (bp)	82 – 810	rel. – 30 %/+ 30 %
Financial assets designated at fair value				
Receivables	Option price models	Interest rate correlation	21 % – 99 %	rel. – 20 %/+ 10 %
Financial assets measured at fair value through other comprehensive income				
Equity instruments	Net asset value method	n/a	n/a	n/a
	Discounted cash flow method	Capitalization rate	2.99 % – 4.33 %	individually per instrument
	Net income value method	Beta factor	0.81 – 1.13	rel. + 5 %/– 5 %
Investment property		Rent dynamization/ indexing	1.5 %	
		Discounting interest rate	1.5 % – 13.5 %	
		Rental loss risk	1.0 % – 5.0 %	
		Basic maintenance costs	EUR 2.5 – 50/m²	
	Discounted cash flow method	Administrative costs (% of target rent)	1.0 % – 6.5 %	n/a

31 Dec. 2017 EUR	Measurement methods	Significant unobservable parameters	Range	Parameter shift
Assets mandatorily measured at fair value				
Trading assets				
Derivatives				
Currency-linked derivatives	Option price model	Currency correlation	47 %	abs. – 30 %/+ 30 %
Interest rate-linked derivatives	Option price model	Interest rate correlation	– 81 % – 99 %	rel. – 20 %/+ 10 %
Share/index-linked derivatives	Option price model	Model parameters	0.02 – 3.90	rel. – 18 %/+ 18 %
Loans and receivables	Net present value method	Credit spread (bp)	50 – 80	rel. – 30 %/+ 30 %
Financial assets designated at fair value				
Securities	Option price model	Interest rate correlation	– 57 % – 17 %	rel. – 20 %/+ 10 %
Financial assets measured at fair value through profit or loss				
Equity instruments	Net asset value method	n/a	n/a	n/a
	Discounted cash flow method	Capitalization rate	3.41 % – 4.44 %	individually per instrument
	Net income value method	Beta factor	0.81 – 1.13	rel. + 5 %/– 5 %
nvestment property	Discounted cash flow method	Rent dynamization/ indexing	1.5 %	n/a
		Discounting interest rate	3.0 % – 9.0 %	
		Rental loss risk	1.0 % – 5.0 %	
		Basic maintenance costs	EUR 3.5 – 30/m²	
		Administrative costs (% of target rent)	0.0 % – 6.5 %	

Equity and liabilities

30 Jun. 2018 EUR million	Measurement methods	Significant unobservable parameters	Range	Parameter shift
Financial liabilities measured at fair value				
Financial liabilities mandatorily measured at fair value through profit or loss				
Trading liabilities				
Derivatives	Option price models	Interest rate correlation	– 81 % – 99 %	rel. – 20 %/+ 10 %
		Currency correlation	35 %	abs. – 30 %/+ 30 %
		Other model parameters	– 0.72 – 5.7	rel. – 12 %/+ 12 %
	TRS model	Discount curve (bp)	100 – 114	rel. – 30 %/+ 30 %
Financial liabilities designated at fair value				
Securitized liabilities		Interest rate correlation	10 % – 99 %	rel. – 20 %/+ 10 %
	Option price models	Currency correlation	35 %	abs. – 30 %/+ 30 %

31 Dec. 2017 EUR million	Measurement methods	Significant unobservable parameters	Range	Parameter shift
Liabilities mandatorily measured at fair value				
Trading liabilities				
Derivatives				
Currency-linked derivatives	Option price model	Currency correlation	47 %	abs. -30 %/+ 30 %
Interest rate-linked derivatives	Option price model	Interest rate correlation	– 81 % – 99 %	rel. -20 %/+ 10 %
Credit derivatives	TRS model	Discount curve (bp)	89 – 101	rel. -30 %/+ 30 %
Share/index-linked derivatives	Option price model	Model parameters	0.02 – 3.90	rel. -18 %/+ 18 %
Financial liabilities designated at fair value				
Deposits	Option price model	Interest rate correlation	21 % – 99 %	rel. -20 %/+ 10 %
Securitized liabilities	Option price model	Interest rate correlation	21 % – 99 %	rel. -20 %/+ 10 %
		Currency correlation	47 %	abs. -30 %/+ 30 %

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

Day one profit or loss

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

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

LBBW recognizes day one profits for trading portfolios of interest rate-linked derivatives. The portfolios were of minor importance as at the end of the reporting period.

Issuing activities

EUR million	30 Jun. 2018	31 Dec. 2017
Securitized liabilities	42,785	44,432
Financial liabilities designated at fair value	4,476	930
Securitized liabilities mandatorily measured at fair value through profit or loss	5,442	4,874
Total	*52,703*	*50,235*

There were new issues, essentially short-dated money market papers, with a nominal volume of EUR 406,758 million (previous year: EUR 651,747 million) in the period under review. Initial sales may fall substantially short of the issued nominal volume. Over the same period, the nominal volume of buybacks was EUR 4,851 million (previous year: EUR 16,952 million) and the nominal volume of repayments was EUR 243,113 million (previous year: EUR 393,623 million).

Other information

33. Related party disclosures

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

30 Jun. 2018 EUR million	Shareholders	Members of the Board of Managing Directors and Supervisory Board	Non-consolidated subsidiaries	Associates	Joint ventures	Other related parties
Financial assets measured at amortized cost	580	6	79	268	1,689	1,216
Financial assets measured at fair value through other comprehensive income	0	0	4	0	0	0
Financial assets designated at fair value	45	0	0	0	0	0
Financial assets mandatorily measured at fair value through profit or loss	1 260	0	1	59	0	447
Other assets	0	0	1	0	0	0
Total assets	*1,886*	*6*	*85*	*328*	*1,690*	*1,663*
Financial liabilities measured at amortized cost	1,931	13	0	84	1,911	11,453
Financial liabilities designated at fair value	0	0	0	0	0	22
Financial liabilities mandatorily measured at fair value through profit or loss	0	0	47	47	0	185
Total equity and liabilities	*1,931*	*13*	*47*	*131*	*1,911*	*11,661*
Contingent liabilities	*23*	*0*	*23*	*14*	*0*	*208*

31 Dec. 2017 EUR million	Shareholders	Members of the Board of Managing Directors and Supervisory Board	Non-consolidated subsidiaries	Associates	Joint ventures	Other related parties
Financial assets measured at amortized cost	1,515	2	36	103	1,829	1,232
Financial assets measured at fair value through other comprehensive income	40	0	60	200	5	0
Financial assets designated at fair value	74	0	0	0	0	0
Financial assets mandatorily measured at fair value through profit or loss	1,412	0	0	53	0	426
Other assets	0	0	1	0	0	0
Total assets	*3,041*	*2*	*96*	*356*	*1,834*	*1,658*
Financial liabilities measured at amortized cost	1,292	6	71	106	1,885	11,131
Financial liabilities designated at fair value	0	0	0	0	0	23
Financial liabilities mandatorily measured at fair value through profit or loss	1	0	0	53	0	128
Total equity and liabilities	*1,293*	*6*	*71*	*159*	*1,885*	*11,282*
Contingent liabilities	*20*	*0*	*5*	*10*	*0*	*268*

Related party transactions resulted in material effects in net interest income of EUR 44 million (previous year: EUR 34 million).

34. Off-balance-sheet transactions and other obligations

Contingent liabilities

EUR million	30 Jun. 2018	31 Dec. 2017
Sureties and guarantee agreements	7,000	6,734
Other contingent liabilities	95	79
Total	*7,094*	*6,813*

Contingent liabilities are dominated by sureties and guarantee agreements.

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

This does not include financial guarantees.

If a guarantee is utilized, there is a risk for LBBW (the Bank) that its claim (for recourse) against the guarantee holder less the collateral has not retained its value. If there are valid reasons for an expected claim, LBBW recognizes specific provisions at the level of individual transactions, provided that a pending loss is assumed. Collective valuation allowances are recognized for latent risks.

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

Contingent claims

EUR million	30 Jun. 2018	31 Dec. 2017
Legal disputes	6	6
Total	*6*	*6*

35. Equity and total amount at risk

The following table shows the values under the currently valid regulations including transitional provisions in accordance with CRR.

EUR million	30 Jun. 2018	31 Dec. 2017
Own funds	**17,121**	**16,869**
Tier 1 capital	12,784	12,795
of which common equity Tier 1 capital (CET1)	11,864	11,955
of which additional Tier 1 capital (AT 1)	920	840
Supplementary capital (Tier 2)	4,336	4,075
Total amount at risk	**79,100**	**75,728**
Risk weighted exposure amounts for credit, counterparty and dilution risk, and advance payments	68,133	63,684
Total exposure amount for position, foreign exchange and commodity risk	4,662	5,608
Total risk exposure amount for operational risks	4,685	4,514
Total amount of risk due to CVA	1,620	1,922
Total capital ratio (in %)	**21.6**	**22.3**
Tier 1 capital ratio in %	**16.2**	**16.9**
Common equity Tier 1 capital ratio (in %)	**15.0**	**15.8**

The common equity Tier I (CET 1) of the LBBW Group decreased marginally as against the end of the previous year. This essentially resulted from the one-time effect of the transition to IFRS 9, the decline in the revaluation reserve and the increase in the value of regulatory adjustment items. This was offset by the transfer of the profit for 2017 to retained earnings and various effects resulting from the transition to the audited figures as at 31 December 2017 required for regulatory purposes. The additional tier 1 capital (AT 1) increased moderately following the discontinuation of the transitional provisions for adjustment items. Supplementary capital (T 2) was strengthened by the issue of two new subordinated bonds (USD 185 million and AUD 250 million) in the first half of 2018. This was offset by daily amortization, maturities and currency effects on tier 2 capital components.

The total amount of risk increased slightly compared to the end of the previous year. This was primarily as a result of the significant increase in risk-weighted exposure, in particular from new business and as a result of adjusted ratings for transactions reported under »Corporates« using the IRB approach. In particular, this was offset by the significant reduction in risk positions reported in the »Corporates« exposure class under the CRSA. The significant reduction in total exposure for position, currency and commodity exposure risks also reduced the total risk exposure. This mainly resulted from the reduction of position risks for investment units.

36. Events after the balance sheet date

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

04 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, 7 August 2018

The Board of Managing Directors

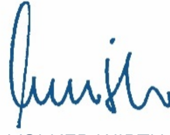
RAINER NESKE
Chairman

MICHAEL HORN
Deputy Chairman

KARL MANFRED LOCHNER

DR CHRISTIAN RICKEN

THORSTEN SCHÖNENBERGER



VOLKER WIRTH

Review report

To Landesbank Baden-Württemberg, Stuttgart, Karlsruhe, Mannheim and Mainz
We have reviewed the condensed consolidated interim financial statements – 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 2018 that are part of the half-yearly financial report according to section 115 of the *Wertpapierhandelsgesetz* (WpHG – German Securities Trading Act). The preparation of the condensed consolidated interim 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 consolidated interim financial statements and on the interim group management report based on our review.

We performed our review of the condensed consolidated interim 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 consolidated interim 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 consolidated interim 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, 10 August 2018

KPMG AG
Wirtschaftsprüfungsgesellschaft

signed Pfeiffer	signed Kühn
Wirtschaftsprufer	Wirtschaftsprufer

Note regarding forward-looking statements

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

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.

LBBW

Breaking new ground

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