Earth. It‘s the place of origin and
home to all known forms of life.
When looked at from space,
you can see it in all its beauty.

If you have big plans, you need to see the whole picture.
The annual report 2017.

Landesbank Baden-Württemberg

LBBW

Key figures of the LBBW Group.

Income statement (EUR million)	1 Jan. – 31 Dec. 2017	1 Jan. – 31 Dec. 2016[1]
Net interest income	1 587	1 669
Allowances for losses on loans and advances	– 92	– 51
Net fee and commission income	534	527
Net gains/losses from financial instruments measured at fair value through profit or loss	219	146
Net gains/losses from financial investments and net income/expenses from investments accounted for using the equity method	163	195
Other operating income/expenses	101	101
Total operating income/expenses (after allowances for losses on loans and advances)	**2 511**	**2 586**
Administrative expenses	– 1 824	– 1 814
Guarantee commission for the State of Baden-Württemberg	– 61	– 93
Expenses for bank levy and deposit guarantee system	– 69	– 71
Impairment of goodwill	0	– 379
Net income/expenses from restructuring	– 41	– 87
Consolidated profit/loss before tax	**515**	**142**
Income taxes	– 97	– 131
Net consolidated profit/loss	**419**	**11**
Key figures in %	1 Jan. – 31 Dec. 2017	1 Jan. – 31 Dec. 2016[1]
Return on equity (RoE)	4.1	1.1
Cost/income ratio (CIR)	74.8	74.3
Balance sheet figures (EUR billion)	31 Dec. 2017	31 Dec. 2016
Total assets	237.7	243.6
Equity	13.4	13.1
Ratios in accordance with CRR/CRD IV (after full implementation)	31 Dec. 2017	31 Dec. 2016
Risk weighted assets (EUR billion)	75.7	77.4
Common equity Tier 1 (CET 1) capital ratio (in %)	15.7	15.2
Total capital ratio (in %)	22.2	21.5
Employees	31 Dec. 2017	31 Dec. 2016
Group	10 326	10 839

Rating (1 March 2018).

Rating	Moody's Investors Service
Long-term rating (non-guaranteed obligations)	
Long-term bank deposits	Aa3, stable
Senior unsecured and long-term issuer ratings	A1, negative
Short-term rating	P-1
Financial strength	baa2
Public-sector covered bonds	Aaa
Mortgage-backed covered bonds	Aaa

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

1 After taking into account adjustments pursuant to IAS 8.
Figures may be subject to rounding differences.

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Foreword and reports.

Foreword by the Board of Managing Directors.

Dear Readers,

We closed out the 2017 financial year, during which we once again increased our focus on the customer business following years of consolidation, with a consolidated profit before tax of EUR 515 million.

The good earnings performance underscores the fact that we have been able to convince our customers as a medium-sized universal bank. The flexibility that our compact company size permits, coupled with a broad product portfolio and the performance capabilities of a large bank, have all proven their worth. At the same time, our solid capitalization provides scope for further growth.

On this solid basis we are actively tackling the opportunities and challenges of the coming years. We have already made good progress in the areas of business focus and digitalization, sustainability and agility that were established as our strategic priorities in spring 2017. Thus at Easter we introduced a new core banking system, and modernized and expanded the digital information and service offerings for our customers. We have set benchmarks on the market through the promissory note loan issue together with Daimler using blockchain technology and through the issue of our first own green bond with a volume of EUR 750 million, a record for a European commercial bank.

In 2017, we also disposed of the last major burden dating from the financial crisis. The Sealink portfolio, in which the securities of the former Sachsen LB were bundled, was almost completely sold to international investors in a favorable market setting by the manager, following a mutually agreed commission from the Free State of Saxony. The sale will release LBBW from the costs of the risk shield provided by its owners for this purpose, which the Bank has not availed itself of.

Against this backdrop it is with optimism that we look forward to 2018, the 200th anniversary of our founding. We perceive innovations and profound changes within our industry not as a threat but as an opportunity to fulfil our service pledge to our customers yet again. And not least of all, we would like to express our heartfelt thanks to our members of staff for their great commitment. They have shown in these times of change that they are able to respond with flexibility to the new customer requirements and market conditions. We have therefore chosen the motto »200 years of LBBW. Breaking new ground« for our jubilee year – an outlook we share with our customers.

We would like to take this opportunity to express our heartfelt thanks to our customers, business partners and owners for the trust they place in our Bank. We look forward to continuing our successful cooperation.

Yours sincerely,

The Board of Managing Directors

RAINER NESKE
Chairman

MICHAEL HORN
Deputy Chairman

KARL MANFRED LOCHNER

DR. CHRISTIAN RICKEN

THORSTEN SCHÖNENBERGER

VOLKER WIRTH

Report of the Supervisory Board.

Ladies and gentlemen,

In the past financial year, we advised the Board of Managing Directors on the management of LBBW and regularly monitored its performance. The Board of Managing Directors provided us with regular, timely, and comprehensive information concerning key developments at the Bank and the Group in 2017. The economic situation of the individual business units and the business situation of the LBBW Group were the subject of intense discussion. Moreover, we were kept abreast of the risk, liquidity and capital management of the Bank, as well as of transactions and events of considerable importance for the Bank, and advised the Board of Managing Directors on these matters. In addition to this, we exchanged ideas with the Board of Managing Directors on significant developments in domestic and European banking supervisory legislation, while critically scrutinizing and monitoring LBBW's management and corporate planning. Between the meetings, I, in my capacity as Chairman of the Supervisory Board, maintained regular contact with the Chairman of the Board of Managing Directors. The Supervisory Board was involved in decisions of major importance for LBBW and, when required, granted its approval after extensive consultation and examination.

The past financial year was also marked by negative interest rates, very intense competition and regulatory density. I am pleased that the Bank successfully mastered these challenges thanks to its solid capitalization, its balanced, customer-oriented business model, and by grasping profitable and sustained opportunities for growth. Through the implementation of a program of action with the four main thrusts of business focus, digitalization, agility and sustainability, the Board of Managing Directors has, moreover, created good preconditions from which to improve its competitiveness going forward, thereby standing by the side of LBBW customers as a reliable partner.

Supervisory Board meetings.

In the year under review, the Supervisory Board held a total of five meetings, each of which was attended by representatives of the competent statutory and regulatory authorities.

In all the ordinary Supervisory Board meetings, the Board of Managing Directors reported on the ongoing situation and particularly on the development of income, expenditure, risks and capital ratios. Questions from the Supervisory Board were answered promptly and to our satisfaction. Furthermore, when necessary, we examined matters relating to the Board of Managing Directors and legal issues. In addition, we again discussed a large number of statutory, regulatory and supervisory law changes in 2017: we looked at Basel IV, the CSR Directive Implementation Act, the amended Remuneration Ordinance for Institutions (Institutsvergütungsverordnung, InstitutsVergV), the trend of capital requirements, the ongoing Supervisory Review and Evaluation Process (SREP) and MiFID II. Reviews by the regulatory authorities of particular relevance were also on the agenda.

During the first ordinary meeting of the year on 20 February 2017, we mainly considered the preliminary results for the 2016 financial year and the challenges connected with Basel IV. We also acknowledged the current status of the IT transformation.

The topic of the extraordinary meeting on 23 March 2017 was the presentation of the program of action by the Board of Managing Directors. The Board of Managing Directors additionally reported on its individual areas of responsibility.

The focus of our 31 March 2017 meeting was the 2016 annual financial statements. The Board of Managing Directors and the statutory auditor reported extensively on the previous financial year. Based on the recommendation of the Audit Committee we adopted the 2016 annual financial statements and approved the consolidated financial statements. Additionally, we accepted the proposal made by the Audit Committee and recommended to the annual general meeting that KPMG again be appointed as statutory auditor in accordance with Section 36 of the German Securities Trading Act (Wertpapierhandelsgesetz, WpHG) for the 2017 financial year. We also dealt with the status regarding the migration to the new core banking system. During this meeting we also set the variable remuneration for the Board of Managing Directors for the 2016 financial year.

At the meeting on 24 July 2017 we took note of the detailed report prepared by the Board of Managing Directors on the current business situation and of the update on the program of action. We also addressed the EBA stress test 2018 and the implementation of MiFID II. Moreover, we were informed of the future requirement of a non-financial statement according to the CSR Directive Implementation Act.

On 8 December 2017 we addressed the update of the group strategy and the update of the restructuring plan required by the regulatory authorities, as well as discussing the amendments to the Remuneration Ordinance for Institutions and the annual evaluation of the Board of Managing Directors and the Supervisory Board. Alongside the budget for the variable remuneration of the Board of Managing Directors and staff members, we approved the business plan for the 2018 financial year and took note of the medium-term planning. We were also heard with regard to the Bank's proposal for the Remuneration Officer and his deputy.

Supervisory Board committees.

The Supervisory Board established a total of four committees from among its members: the Risk Committee, Audit Committee, Remuneration Control Committee and Executive Committee, with the latter assuming the statutory duties of the Nomination Committee. The current membership of the committees is printed on page 14 of this Annual Report.

The Executive Committee met seven times in the period under review. Its deliberations centered on preparing the meetings of the full Supervisory Board, especially personnel matters and legal issues. Furthermore, the Executive Committee dealt with the evaluation of the 2017 Board of Managing Directors and Supervisory Board in accordance with the German Banking Act, the approval of mandates held by the Board of Managing Directors, the sale of the Sealink portfolio by the manager, the long-term succession planning and the review of the principles for the appointment of senior management, together with the current status with regard to promoting the presence of the underrepresented gender on the Supervisory Board and a strategy to achieve this goal.

The Remuneration Control Committee fulfilled its statutory responsibilities in a total of five meetings. In particular, it reviewed LBBW's remuneration systems according to the requirements of the Remuneration Ordinance for Institutions. The Remuneration Officer participated regularly in the committee meetings and produced a comprehensive annual report on activities undertaken. The Head of Human Resources provided extensive information on the Bank's remuneration structure. Moreover, in fulfilling its primary responsibility the Remuneration Control Committee deliberated on questions relating to the remuneration of the Board of Managing Directors and prepared decisions to be taken by the Supervisory Board.

The Audit Committee held a total of four meetings in 2017. It discussed the annual financial statements and the consolidated financial statements of LBBW as well as the audit reports of the statutory auditor. It requested the auditor's declaration of independence and prepared the Supervisory Board's recommendation to the annual general meeting concerning the reappointment of KPMG. The Audit Committee also agreed on the main points of the audit and the statutory auditor's fee. The Audit Committee received regular reports on the current status and results of the audit of annual financial statements and monitored the implementation of the audit. In addition, it discussed mandates for the statutory auditor within the scope of non-audit services. Furthermore, the Audit Committee discussed the half-yearly financial report with the Board of Managing Directors and the statutory auditor. As well as this, it satisfied itself of the efficacy of internal control, risk management, auditing and compliance systems, and monitored the accounting process. The Audit Committee also took note of the annual report by the Anti Money Laundering Officer and the annual report on the organization of the internal control system. In every meeting the management of the Group Auditing departments reported on its work. Furthermore, representatives of the Bank's Compliance and Risk Controlling departments reported to the Committee on matters of current relevance. The Audit Committee also discussed the question of having the non-financial statement audited by a third party. Last but not least the Audit Committee discussed the rotation of the statutory auditor required from the 2020 financial year onwards and the requisite selection process.

In a total of nine meetings, the Risk Committee held in-depth discussions on the Bank's risk situation and risk management as well as its exposure for which reporting duties apply in accordance with the law, the articles of association and the bylaws, granting its approval where this was required in individual cases. Within the framework of regular risk reporting of the Board of Managing Directors, the Risk Committee deliberated in depth the Bank's risk-bearing capacity and the Bank's main types of risk. The Risk Committee also discussed the Group risk strategy as derived from the business strategy, as well as the Bank's credit, market-price, liquidity, real estate, development and investment risk and operational risk strategies with the Board of Managing Directors. The Risk Committee also examined whether the Bank's remuneration system took adequate account of the Bank's risk, capital and liquidity structure. Furthermore, the Risk Committee took note of the status of a recent audit by the regulatory authorities. The Risk Committee also regularly discussed current industry trends, in particular the importance of e-mobility and fuel cells in the automotive sector, geopolitical risks in connection with the real estate portfolio in the UK (»Brexit«) and current projects such as the sale of the Sealink portfolio by the manager, the exploration of access to new markets and blockchain transactions.

The committee chairpersons regularly reported on the work of the committees to the full Supervisory Board.

All members of the Supervisory Board attended the meetings of the Supervisory Board and the committees in 2017, with only a few exceptions (average attendance 90%).

Training and development measures.

The members of the Supervisory Board assumed responsibility for taking part in the training and development measures which they required to perform their duties. They were given appropriate support for this by LBBW. In addition to individual training measures the Supervisory Board received training on current regulatory requirements for the work of the Supervisory Board and its members on 20 February 2017, as well as training on IFRS 9 on 24 July 2017.

Annual and consolidated financial statements.

The statutory auditor KPMG audited the annual financial statements and the consolidated financial statements of LBBW for 2017 including the management report, issuing an unqualified auditor's certificate. The annual financial statements were prepared in accordance with the provisions of the German Commercial Code (Handelsgesetzbuch, HGB) and the consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS). The documentation relating to the financial statements and the principal auditor's reports were forwarded to all members of the Supervisory Board in good time. Furthermore, the members of the Audit Committee received all the relevant audit reports. The statutory auditor attended the committee meetings pertaining to the annual financial statements, elaborated on the main results of the audit and was available to answer any questions. At its balance sheet meeting on 9 April 2018 the Audit Committee discussed the documentation relating to the financial statements in detail with the Board of Managing Directors and the statutory auditor.

At its meeting on 13 April 2018, following an assessment of the reports and an in-depth discussion, the Supervisory Board accepted the recommendation of the Audit Committee that there were no objections to be made to the annual and consolidated financial statements. The Supervisory Board adopted the annual financial statements drawn up as of 31 December 2017 and approved the consolidated financial statements for 2017.

Conflicts of interest.

The Risk Committee dealt with the credit approvals stipulated by Section 15 of the German Banking Act (Kreditwesengesetz, KWG) and in accordance with its bylaws. Those members of the Supervisory Board who at the time at which the resolutions were passed were members of the decision-making bodies of the borrowers concerned or were exposed to a possible conflict of interests for any other reasons did not participate in the deliberations and voting. To that extent the provisions governing the handling of conflicts of interest set out in the Municipal Code for Baden-Württemberg apply accordingly to the Supervisory Board.

Legal matters.

The Supervisory Board and the individual committees continuously obtained detailed information on any significant legal matters. Where necessary, we consulted with external specialists.

Personnel changes in the Board of Managing Directors and the Supervisory Board.

At the suggestion of one owner, Mr. Burkhard Wittmacher was elected as a new member of LBBW's Supervisory Board. He succeeded Mr. Carsten Claus, who resigned from his position on LBBW's Supervisory Board effective 30 September 2017.

At the ordinary Supervisory Board meeting on 24 July 2017 we appointed Mr. Thorsten Schönenberger as a member of the Board of Managing Directors as of 1 August 2017. Mr. Schönenberger is responsible for real estate, project finance and group organization.

At its meeting on 8 December 2017 the Supervisory Board decided to reassign some of the responsibilities within the Board of Managing Directors. Mr. Alexander von Uslar, Chief Financial Officer, who had been mainly responsible for finance, information technology and the back office of Financial Markets, resigned from LBBW's Board of Management effective 31 December 2017 by the best of mutual agreements. As of 1 January 2018 the number of members on the Board of Managing Directors was therefore reduced to six.

On behalf of the members of the Supervisory Board I would like to thank the Board of Managing Directors as well as the staff for their great personal dedication and performance in the 2017 financial year.

For the Supervisory Board

Supervisory Board of LBBW.

Chairman.

CHRISTIAN BRAND
Former chairman of the Board of Management of L-Bank

Deputy Chairperson.

EDITH SITZMANN MDL
Minister of Finance and Economics of the State of Baden-Württemberg

Members.

CARSTEN CLAUS
until 30 September 2017
Chairman of the Board of Managing Directors of Kreissparkasse Böblingen

WOLFGANG DIETZ
Lord Mayor of the town of Weil am Rhein

UTA-MICAELA DÜRIG
Managing Director of Robert Bosch Stiftung GmbH

WALTER FRÖSCHLE
Employee Representative of Landesbank Baden-Württemberg

HELMUT HIMMELSBACH
Member of the Supervisory Board of WGV-Versicherung AG

CHRISTIAN HIRSCH
Employee Representative of Landesbank Baden-Württemberg

BETTINA KIES-HARTMANN
Employee Representative of Landesbank Baden-Württemberg

FRITZ KUHN
Lord Mayor of the State Capital Stuttgart

SABINE LEHMANN
Employee Representative of Landesbank Baden-Württemberg

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

DR. FRITZ OESTERLE
Attorney at law

MARTIN PETERS
Managing Partner of the Eberspächer group of companies

CHRISTIAN ROGG
Employee Representative of Landesbank Baden-Württemberg

CLAUS SCHMIEDEL
Member of Ludwigsburg District Council

B. JUTTA SCHNEIDER
Member of the Board of Managing Directors of Global Consulting Delivery SAP Deutschland SE & Co. KG

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

DR. JUTTA STUIBLE-TREDER
Managing Partner of EversheimStuible Treuberater GmbH

DR. BRIGITTE THAMM
Employee Representative of Landesbank Baden-Württemberg

BURKHARD WITTMACHER
as of 1 October 2017
Chairman of the Board of Managing Directors of Kreissparkasse Esslingen-Nürtingen

NORBERT ZIPF
Employee Representative of Landesbank Baden-Württemberg

Executive Committee of LBBW.

Chairman.

CHRISTIAN BRAND
Former chairman of the Board of Management of L-Bank

Deputy Chairperson.

EDITH SITZMANN MDL
Minister of Finance and Economics of the State of Baden-Württemberg

Members.

FRITZ KUHN
Lord Mayor of the State Capital Stuttgart

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

NORBERT ZIPF
Employee Representative of Landesbank Baden-Württemberg

Remuneration Control Committee of LBBW.

Chairman.

CHRISTIAN BRAND
Former chairman of the Board of Management of L-Bank

Deputy Chairperson.

EDITH SITZMANN MDL
Minister of Finance and Economics of the State of Baden-Württemberg

Members.

FRITZ KUHN
Lord Mayor of the State Capital Stuttgart

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

NORBERT ZIPF
Employee Representative of Landesbank Baden-Württemberg

Audit Committee of LBBW.

Chairman.

CARSTEN CLAUS
until 30 September 2017
Chairman of the Board of Managing Directors of Kreissparkasse Böblingen

Deputy Chairman.

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

Members.

UTA-MICAELA DÜRIG
Managing Director of Robert Bosch Stiftung GmbH

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Member of the Supervisory Board of WGV-Versicherung AG

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DR. JUTTA STUIBLE-TREDER
Managing Partner of EversheimStuible Treuberater GmbH

BURKHARD WITTMACHER
as of 8 December 2017
Chairman of the Board of Managing Directors of Kreissparkasse Esslingen-Nürtingen

Guest.

CHRISTIAN BRAND
Former chairman of the Board of Management of L-Bank

Risk Committee of LBBW.

Chairman.

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

Deputy Chairman.

CHRISTIAN BRAND
Former chairman of the Board of Management of L-Bank

Members.

CARSTEN CLAUS
until 30 September 2017
Chairman of the Board of Managing Directors of Kreissparkasse Böblingen

WOLFGANG DIETZ
Lord Mayor of the town of Weil am Rhein

WALTER FRÖSCHLE
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DR. FRITZ OESTERLE
Attorney at law

CLAUS SCHMIEDEL
Member of Ludwigsburg District Council

B. JUTTA SCHNEIDER
Member of the Board of Managing Directors of Global Consulting Delivery SAP Deutschland SE & Co. KG

BURKHARD WITTMACHER
as of 8 December 2017
Chairman of the Board of Managing Directors of Kreissparkasse Esslingen-Nürtingen

Corporate governance at LBBW.

LBBW takes account of the fundamental aspects of the German Corporate Governance Code. This is a set of essential legal regulations governing the management and monitoring of German listed companies and contains nationally and internationally recognized standards for good and responsible corporate governance – including in the form of recommendations.

As the Code is geared towards listed joint-stock companies, not all points of it are applicable to Landesbank Baden-Württemberg, since LBBW is a non-listed credit institution incorporated under public law (Anstalt des öffentlichen Rechts). For this reason, several provisions of the German Corporate Governance Code can only be transferred analogously to Landesbank Baden-Württemberg. In terms of content, LBBW's corporate governance is oriented very closely to the spirit of the German Corporate Governance Code. For a large number of recommendations of the German Corporate Governance Code there are therefore special regulations in the legislation governing LBBW, in the articles of association and bylaws of the executive bodies and further committees. Furthermore, there are special provisions for corporate governance in the banking supervisory legislation that are not included in the Code, but do apply to LBBW.

At LBBW, management and supervisory rules applicable to corporations are practiced. For instance, the tasks of LBBW's annual general meeting and Supervisory Board are regulated as for a joint-stock company although this is not the legal form of LBBW. The members of the LBBW Board of Managing Directors make their decisions independently of any external instructions. At the same time, it is ensured that independent expertise is drawn on through the supervisory bodies. The Supervisory Board of LBBW has eight independent members, including the Chairman of the Supervisory Board.

Corporate governance, as practiced at LBBW, is presented below. The structure of the report is based on the standards of the German Corporate Governance Code, which is voluntary and not mandatory for LBBW on account of its legal form, as amended on 7 February 2017.

Shareholders and annual general meeting.

Shareholders.

As an institution incorporated under public law, LBBW has not securitized any equities. The shareholders are therefore described as owners (Träger) and not as shareholders.

Landesbank Baden-Württemberg's owners are:

- Sparkassenverband Baden-Württemberg (SVBW) (Savings Bank Association of Baden-Württemberg) with a 40.534118% stake in the share capital,

- the State of Baden-Württemberg (state)
  with a 24.988379% stake in the share capital,
- the State Capital of Stuttgart (city)
  with a 18.931764% stake in the share capital and
- Landesbeteiligungen Baden-Württemberg GmbH (Landesbeteiligungen BW) with a 15.545739% stake in the share capital.

The owners of LBBW assume their rights before or during the annual general meeting within the scope of the opportunities offered by the articles of association and thereby exercise their voting rights. The voting rights of the owners are based on the size of their stake in the share capital, with each euro granting one vote.

Annual general meeting.

At the annual general meeting, the owners exercise their rights over the affairs of LBBW in the absence of any stipulations to the contrary in the legislation governing Landesbank Baden-Württemberg or the articles of association of LBBW. The owners are represented at the annual general meeting by one or several people.

The powers of the annual general meeting encompass the typical tasks of an annual general meeting based on joint-stock companies legislation, for example, voting on the appropriation of net profit, or granting discharge to the members of the Supervisory Board and the Board of Managing Directors. The annual general meeting also makes decisions about the content of the articles of association and any changes thereto, and about key structural measures, such as corporate agreements, setting and changes to the share capital, the issue of profit participation rights and granting of silent partners' contributions. The Supervisory Board decides whether to change the principles of business policy.

The functions of supervising and monitoring the Board of Managing Directors, including the appointment and dismissal of members of this board, lie with the Supervisory Board. The Board of Managing Directors submits the audited annual financial statements to the Supervisory Board for approval in line with LBBW's articles of association.

LBBW's share capital can be increased or decreased by a resolution passed at the annual general meeting. LBBW can accept capital generated from profit-participation rights, silent partners' contributions as well as subordinated guarantee capital, and other forms of capital as provided for in the German Banking Act (Kreditwesengesetz, KWG) from its owners and third parties.

Each owner with a share in the share capital is entitled to a share in the new share capital based on their shareholding in the event of increases. If one owner fails to exercise their subscription right, this right will accrue to the other owners for a corresponding consideration in a proportion to their share in the share capital, unless they have reached an agreement to the contrary among themselves.

The ordinary general meeting takes place within the first eight months of the year. Further general meetings are called if the good of LBBW so requires and also when the Supervisory Board or an owner makes an application detailing the agenda items. The internal regulations of the annual general meeting provide more details in this respect, particularly as regards the form and deadline for requests that a meeting be held and for the calling of a meeting.

In contrast to a joint-stock company, LBBW provides its owners with the documents required for the annual general meeting, such as the convocation documents for the annual general meeting, directly by e-mail or by mail rather than via its website, in view of the small number of owners.

Interoperation between the Board of Managing Directors and the Supervisory Board.

The Board of Managing Directors and the Supervisory Board work closely together for the good of the Company. The Board of Managing Directors agrees the strategic direction of the Company with the Supervisory Board and they discuss the status of strategy implementation at regular intervals. For business of fundamental importance, the articles of association or the Supervisory Board, the latter also in individual cases, stipulate that the consent of the Supervisory Board is required. Examples include decisions or measures that fundamentally change the Company's net assets, financial position or results of operations.

It is the duty of the Board of Managing Directors to supply the Supervisory Board with information although the Supervisory Board for its part needs to make sure that it is adequately informed. For this purpose, the Supervisory Board sets out the Board of Managing Director's duties of information and reporting in detail. The Board of Managing Directors provides the Supervisory Board with regular, prompt and comprehensive information about all relevant questions relating to planning, business performance, the risk situation, effectiveness of the internal control system, the internal auditing system and compliance. It examines deviations in the business development from the plans and targets drawn up and gives reasons for such deviations.

Reporting by the Board of Managing Directors to the Supervisory Board is generally carried out in written form. Documents required for a decision are generally forwarded to members of the Supervisory Board in good time before the meeting.

The Chairman of the Board of Managing Directors informs the Chairman of the Supervisory Board his Deputy about important events, including between the individual meeting dates.

Based on LBBW's and its owners' understanding, good corporate governance requires open discussion between the Board of Managing Directors and the Supervisory Board and internally within the Board of Managing Directors and the Supervisory Board. Full and comprehensive confidentiality is of decisive importance. The members of the Supervisory Board and the Board of Managing Directors are therefore bound to secrecy. This obligation remains even after the end of their activity within the executive bodies of the Landesbank. All members of the executive bodies ensure that employees asked by them to provide support observe the same obligation to secrecy.

The Board of Managing Directors and the Supervisory Board observe the rules of proper corporate governance. Should they culpably breach the due diligence expected of a prudent and conscientious director or Supervisory Board member, they are liable to pay damages to LBBW. There is no breach of obligations for business decisions if the member of the Board of Managing Directors or Supervisory Board may reasonably have assumed that they were acting for the good of the Company on the basis of fair information (business judgment rule).

With regard to the D&O insurance taken out for the Board of Managing Directors, a deductible has been agreed of 10% of the loss up to one and a half times the Board member's annual fixed compensation. A corresponding deductible was also agreed when the D&O insurance was taken out for the members of the Supervisory Board.

Decisions about granting loans to members of the Board of Managing Directors and the Supervisory Board and related parties are made by the Risk Committee in accordance with Section 15 German Banking Act (Kreditwesengesetz, KWG). The fact that the Risk Committee is a Supervisory Board committee ensures that the Supervisory Board is involved in the aforesaid lending decisions.

LBBW has been reporting on its corporate governance in a report on corporate governance forming part of the annual report since the 2010 financial year.

Board of Managing Directors.

Duties and responsibilities.

The Board of Managing Directors manages the business of LBBW under its own responsibility pursuant to the law and in the Company's interest, i.e. by taking the needs of the owners, its employees and other groups (stakeholders) affiliated to the Company into account, with the aim of achieving sustainable added value. In accordance with the legal principles of LBBW, it is responsible for any LBBW matters that do not fall within the remit of another authority based on the legislation governing Landesbank Baden-Württemberg or the articles of association of LBBW. In managing the business, the members of the Board of Managing Directors exercise the due diligence of a prudent and conscientious business manager. In so doing, the Board of Managing Directors develops the strategic direction of the Company, agrees it with the Supervisory Board and ensures it is implemented. Furthermore, the Board of Managing Directors ensures compliance with the statutory regulations and the Company's internal rules and works toward ensuring that they are observed by LBBW Group companies. The Board of Managing Directors further ensures a reasonable risk management and risk control within the Group.

The Board of Managing Directors is the line superior for all employees of LBBW, including its subsidiaries, branches, stock market offices, representative offices and legally dependent institutions under public law. The Board of Managing Directors strives for diversity and therefore a reasonable inclusion of women, in particular, when filling management positions within the Bank.

Members of the Board of Managing Directors.

The Board of Managing Directors consists of several members. The members of the Board of Managing Directors, the Chairman and his deputy or deputies are determined and appointed by the Supervisory Board. In filling positions on the Board of Managing Directors, the Supervisory Board strives for diversity.

To ensure maximum flexibility, LBBW has refrained from fixing an allocation of competences for the members of the Board of Managing Directors in the bylaws. A schedule of responsibilities governs the departmental responsibilities of individual board members. The Supervisory Board makes decisions about the bylaws of the Board of Managing Directors and about the approval of the proposed allocation of responsibilities.

Remuneration.

Details on the remuneration of the Board of Managing Directors can be found in the remuneration report.

Conflicts of interest.

Members of the Board of Managing Directors are obliged to act in the interests of the Bank. Members of the Board must not pursue personal interests when making their decisions. They are bound by a comprehensive non-compete clause while working for LBBW and must not exploit business opportunities open to the Bank for their own ends. Members of the Board of Managing Directors must not seek or accept undue advantages from third parties in connection with their activities, neither for themselves nor for other persons, or grant undue advantages to third parties.

Every member of the board should disclose any possible conflicts of interest to the Supervisory Board immediately and inform the other board members. All business between LBBW, on the one hand, and the members of the Board of Managing Directors or persons or enterprises closely associated with them, on the other, must satisfy industry standards. Important business requires the consent of the Supervisory Board.

Members of the Board of Managing Directors may only accept secondary activities, in particular appointments to supervisory boards outside the LBBW Group, with the consent of the Executive Committee. The Executive Committee consists of the Chairman of the Supervisory Board, the Deputy Chairman and three members of the Supervisory Board. This ensures that the Supervisory Board is involved in the decision about secondary activities of the Board of Managing Directors.

In the event of a conflict of interests, the member concerned will not take part in the deliberations and voting on the item in question by the Board of Managing Directors. Section 18 paragraphs 1 - 3 and 5 of the Municipal Code for Baden-Württemberg applies accordingly to the members of the Board of Managing Directors in this regard.

Supervisory Board.

Duties and responsibilities.

It is the duty of the Supervisory Board to offer regular advice and oversee the Board of Managing Directors' management of LBBW. It is involved in decisions of key importance to the Company. It is responsible for the appointment and dismissal of the members of the Board of Managing Directors and of the Chairman and Deputy Chairmen of the Board and for setting the remuneration of the Board of Managing Directors. The Supervisory Board is able to appoint deputy members of the Board of Managing Directors, who have the same rights and obligations as the members of the Board of Managing Directors. The Supervisory Board has set itself its own bylaws. The Supervisory Board has a Chairman and a Deputy Chairman. The Chairman and Deputy Chairman of the Supervisory Board are elected from the Supervisory Board's own number on the basis of a proposal made by the shareholders' meeting in the absence of any requirements to the contrary in the Landesbank Baden-Württemberg Act.

Tasks and powers of the Supervisory Board Chairman.

The Chairman of the Supervisory Board calls a meeting of the Supervisory Board as required, but no less than four times a year, and chairs its meetings. The bylaws for the Supervisory Board set out further details, in particular, the format and deadlines for the calling of meetings. The Chairman coordinates the work in the Supervisory Board, chairs its meetings and attends to the affairs of the Supervisory Board in dealings with outside parties.

The Chairman of the Supervisory Board takes part in the meetings of the Audit Committee as a permanent guest.

The Chairman of the Supervisory Board is in regular contact with the Board of Managing Directors, in particular with its Chairman, and discusses with the latter strategy, business development and risk management at LBBW. The Chairman of the Supervisory Board is informed immediately by the Chairman of the Board of Managing Directors about important events that are of key importance in the assessment of the position and development of the Company and its management. The Chairman of the Supervisory Board then notifies the Supervisory Board and calls an extraordinary meeting of the Supervisory Board if required.

Formation of committees.

Due to the specific circumstances of LBBW and the number of its members, the Supervisory Board has formed four well-qualified committees in the shape of the Executive Committee, the Remuneration Control Committee, the Audit Committee and the Risk Committee. The respective committee chairpersons regularly report on the work of the committees to the Supervisory Board.

The Executive Committee performs the statutory duties of the Nomination Committee; in the absence of anything to the contrary in the Landesbank Baden-Württemberg Act, the proposals for the election of members of the Supervisory Board that are submitted to the annual general meeting are prepared solely by the representatives of the owners.

The Audit Committee deals, in particular, with the effectiveness of the internal control system and internal auditing, as well as issues relating to accounting, risk management and compliance. It also monitors the audit of the annual and consolidated financial statements. The Audit Committee submits a substantiated proposal for a statutory auditor to the Supervisory Board. If a different auditor is recommended than the previous one, a selection of at least two candidates is to be proposed. The Audit Committee monitors the independence of the statutory auditor and handles additional services provided by the auditor, issues the audit assignment to the auditor and determines focal areas of the audit and the auditor's fee. The Chairman of the Audit Committee has specific knowledge and experience of the application of accounting standards and internal control procedures. The Chairman of the Audit Committee is not a former member of LBBW's Board of Managing Directors.

Members of the Supervisory Board.

The members of the Supervisory Board are elected by the shareholders' meeting unless they are required to be elected by the employees and in the absence of any requirements to the contrary in the Landesbank Baden-Württemberg Act. Eight of the members of the Supervisory Board elected by the annual general meeting, including the chairman, are independent. Each owner has the right to submit proposals for election.

The composition of the Supervisory Board is such that its members collectively possess the requisite knowledge, skills and technical experience to assume their tasks in due form.

The members of the Supervisory Board assume responsibility for taking part in the training and development measures which they require to perform their duties. They receive reasonable support for this from LBBW, e.g. through the designation of specific seminars and the availability of corresponding lectures. In 2017, two specialist seminars were organized especially for the Supervisory Board.

To enable the Supervisory Board to provide independent advice and oversee the Board of Managing Directors independently, the Supervisory Board includes independent members, the number of which is set out in LBBW's rules and regulations. Supervisory Board members are seen as independent if they have no business or personal relationship with the Company, its Board of Managing Directors or the owners that could constitute the basis for a conflict of interests. There are no former members of the Board of Managing Directors on the Supervisory Board. Each Supervisory Board member takes care that they have sufficient time to fulfill their role.

If a member of the Supervisory Board has attended half or fewer than half of the meetings of the Supervisory Board or the committees of which he or she is a member in the course of a financial year, a note to that effect is included in the Supervisory Board's report. Attendance is also deemed to include participation via a conference call or video link although this should not be the rule.

Remuneration.

Details on the remuneration of the Supervisory Board can be found in the remuneration report.

Conflicts of interest.

Every member of the Supervisory Board is obliged to act in the interests of the Bank. They may not pursue any personal interests in their decisions, nor use any business opportunities open to the Company for their own advantage. Any conflicts of interest, in particular those that may arise because of an advisory or executive function exercised for customers, suppliers, lenders or other business partners must be disclosed to the Supervisory Board. In the event of a conflict of interests, the member concerned does not participate in the deliberations and voting of the Supervisory Board on the issue in question. Section 18 paragraphs 1 to 3 and 5 of the Municipal Code for Baden-Württemberg applies to the members of the Supervisory Board accordingly in this regard.

Any material conflicts of interest of a non-temporary nature existing in the person of a Supervisory Board member will lead to a member's appointment being terminated. Furthermore, any consulting, other service or employment contracts of a Supervisory Board member with the Company require the Supervisory Board's approval.

The Supervisory Board regularly checks the efficiency of its activities and at least once a year evaluates its structure, size, composition and performance as well as the knowledge, skills and experience both of individual members and of the executive body as a whole.

Transparency.

LBBW deals with its owners equally and without distinction in matters of information.

LBBW supports good contact with its owners. It is the view of LBBW that publication of a financial calendar would not offer any added value. Such a calendar is therefore not provided.

Accounting and audit of the annual accounts.

Accounting:

The owners and third parties are provided with information primarily via the consolidated financial statements. They also receive information during the financial year through the half-yearly financial report. The consolidated financial statements and the abbreviated consolidated financial statements of the half-yearly financial report are compiled in accordance with the relevant international accounting standards.

The consolidated financial statements are compiled by the Board of Managing Directors and audited by the auditor and the Supervisory Board. The Audit Committee, as a Supervisory Board committee, discusses the half-yearly financial reports with the Board of Managing Directors. In addition, the German Financial Reporting Enforcement Panel (Deutsche Prüfstelle für Rechnungslegung) is authorized to check that the consolidated financial statements comply with the applicable accounting standards (enforcement). As a company not listed on the stock market, LBBW publishes its consolidated financial statements and its half-yearly financial reports within the timescale required by the German Securities Trading Act (Wertpapierhandelsgesetz - WpHG). The annual report is published at the latest four months after the end of each financial year (Section 37v WpHG) and the half-yearly financial report two months following the end of the reporting period at the latest (Section 37w WpHG).

In its consolidated financial statements LBBW explains the relationships with representatives of the owners who are considered as related parties within the meaning of the applicable accounting standards.

Audit of the annual accounts.

Prior to submitting the proposal to the annual general meeting for the appointment of the auditor, the Supervisory Board or the Audit Committee obtains a declaration from the proposed auditor stating whether any and, if applicable, which, business, financial and personal or other relationships exist between the auditor and its executive bodies and audit managers, on the one hand, and LBBW and the members of its executive bodies, on the other, which may give reason to doubt the auditor's independence. The declaration also states the extent to which other services were provided for LBBW over the past financial year, in particular in terms of consultancy, and have been contractually agreed for the following financial year.

The Supervisory Board or its Audit Committee commissions the auditor and reaches an agreement with the latter about the fee.

The auditor notifies the Chairman of the Supervisory Board and/or the Chairman of the Audit Committee immediately of any grounds for disqualification or partiality that may emerge during the course of an audit, unless they are rectified immediately.

The Supervisory Board has also stipulated that the auditor will immediately report on all events and findings of importance to the Supervisory Board's duties that may arise while carrying out the audit. The auditor takes part in the deliberations of the Supervisory Board and the Audit Committee relating to the annual financial statements and the consolidated financial statements and reports on the key results of its audit.

Remuneration report.

Board of Managing Directors.

Principles of the remuneration system.

Responsibility.

The Supervisory Board makes decisions on the remuneration system for the members of the Board of Managing Directors, fixes the remuneration payable to them and regularly reviews its appropriateness. The Remuneration Control Committee assumes an important advisory role in this respect and prepares the resolutions of the Supervisory Board.

Principles of the remuneration system.

The remuneration parameters that determine variable remuneration are geared toward achieving the targets derived from the Bank's strategy on a sustained basis and support it in reaching its strategic company targets. The variable performance-based remuneration for the members of the Board of Managing Directors in 2017 was guided by the Group's sustained overall success; it was measured on the basis of its economic success and the strategic components over a period of three years, accounting for 50%, and on the individual Board members' contribution to profit in the year under review, accounting for 50%. The individual performance contribution is tied to target achievement agreements based on the business strategy and business plan. Final calculation of the variable performance-based remuneration is based on the overall target achievement as determined in a resolution passed by the Supervisory Board in the following year.

Alongside sustainability in the decision on performance, sustainability in the payout of the variable remuneration constitutes a key element for the remuneration for members of the Board of Managing Directors. Significant parts of the variable remuneration are based on sustained business success. For this reason, 60% of the variable remuneration granted for 2017, the year under review, will be deferred over a four-year period and paid out on a pro rata temporis basis (deferral); negative performance contributions can reduce the deferral or lead to its expiry (malus). 50% of the deferred proportion of the variable remuneration granted for 2017, the year under review, is subject to a blocking period of one year and guided by sustained performance (i.e. subject to an appreciation right). LBBW's sustained performance is measured by the change in the adjusted aggregate risk cover[2]. To this end, the aggregate risk cover performance in each respective payout year is determined in a comparison with the base year (awarding of variable performance-based remuneration). 20% of the variable remuneration calculated is paid out immediately. The same amount is frozen for one year and is also tied during this period to any changes in the sustained performance.

1 The strategic component is designed to take greater account of achievement of the company targets set out in the business strategy. Specifically, the strategic component is measured on the basis of the target achievement of the targets for the Common equity Tier 1 (CET 1) capital ratio and the return on equity (RoE).
2 The basis is the aggregate risk cover anchored in the Bank's risk management, adjusted by certain items.

Following the expiry of the deferral period, the malus is reviewed using the criteria set out in the Board remuneration model at Group level and at individual level prior to payment. In addition, a review is performed prior to payment to establish that the additional conditions (positive overall performance of the Group, no risk to appropriate capital backing, sufficient liquidity on the part of the Bank and compliance with the combined capital buffer requirements) have been satisfied.

The retirement benefits are essentially designed as defined-contribution benefits. Some members of the Board of Managing Directors have an arrangement taking the form of a final salary scheme, the amount of which is calculated according to the length of their service on the Board of Managing Directors.

Remuneration 2017.

In 2017, remuneration of members of LBBW's Board of Managing Directors consisted of fixed, non-performance-based remuneration and a performance-based variable component. In addition to the contractually agreed fixed salary, the fixed remuneration includes payments into the company pension scheme and all other benefits (essentially the use of a company car).

During the 2017 financial year, the members of the Board of Managing Directors received fixed contractually agreed remuneration totaling EUR 5.3 million for the performance of their duties on the Board. The other benefits amounted to EUR 0.2 million. In addition, variable performance-based remuneration totaling EUR 1.2 million was paid out (inflow). This amount includes percentages of deferred variable remuneration from previous years.

In 2017, EUR 2.1 million was transferred to the pension obligations for serving members of the Board of Managing Directors as an element of the fixed remuneration according to IFRS and recognized in the income statement. As at 31 December 2017, pension obligations according to IFRS for serving members of LBBW's Board of Managing Directors as at the reporting date totaled EUR 16 million.

Supervisory Board.

Principles of remuneration for Supervisory Board members.

The annual general meeting on 22 July 2011 decided on the remuneration of Supervisory Board members as follows:

- The members of the Supervisory Board receive a fixed remuneration of EUR 25,000 for the respective financial year. The Chairman of the Supervisory Board receives twice and the Deputy Chairman one and a half times the fixed remuneration of a Supervisory Board member.
- Supervisory Board members who hold a seat on a committee receive further fixed remuneration of EUR 10,000 per committee. The Chairman of a committee receives 2.0 times and the Deputy Chairman 1.5 times the further fixed remuneration.
- Each Supervisory Board member receives an attendance allowance of EUR 200 to attend a meeting of the Supervisory Board or one of its committees.

- The Supervisory Board members are further reimbursed for the expenditure that they incur in connection with performing their duties as members of the Supervisory Board (travel expenses, individual bank-specific further training etc.).
- The Supervisory Board members are reimbursed for the value-added tax incurred that they have to pay as a result of their activity as a member of the Supervisory Board or a committee.

The employee representatives on the Supervisory Board employed at LBBW also receive their salary as employees.

The remuneration of Supervisory Board members who are not part of the Supervisory Board for a complete financial year is paid pro rata for their term in office.

Remuneration 2017.

For the 2017 financial year, a total of EUR 0.93 million was paid in salaries and EUR 0.05 million in attendance allowances to the members of the Supervisory Board.

Other notes.

There is also pecuniary loss liability insurance for members of the Board of Managing Directors and Supervisory Board (»D&O«). The deductible is 10% of the loss up to a maximum of 1.5 times the fixed annual remuneration.

Landesbank Baden-Württemberg

The Supervisory Board

The Board of Managing Directors

Report on gender equality and equal pay.

Landesbank Baden-Württemberg (LBBW) has a duty to draw up and publish a report on gender equality and equal pay, according to Sections 21 et seqq. of the Act to Promote Transparency in Pay Structures (EntgTranspG). The report relates solely to LBBW (Bank).

The measures designed to promote gender equality are firmly anchored in the guidelines of human resources policy, particularly in two pillars, »Work/life balance« and »Equal opportunity and diversity«. Specifically, we have for example increased the number of child-care spots and retained the »Audit berufundfamilie« certificate from the Hertie Foundation following re-auditing in 2016. In addition, by aligning ourselves with the »Diversity as Opportunity – German Corporate Diversity Charter in Germany« initiative (www.charta-der-vielfalt.de), we are committed to creating a workplace free of prejudice for all employees. A diversity officer is assigned to supervise and support diversity and equal opportunity efforts at LBBW.

A mentoring program is being offered in order to promote career opportunities for women. It is targeting women who see themselves taking on managerial responsibility at the second and third levels (head of division and head of department). The seminars »Life planning and career« and »Communication awareness«, addressed to employees with leadership ambitions, also seek to promote women.

Measures designed to bring about equal pay for men and women are anchored in LBBW's remuneration systems in the sense that they are guided by performance, results and the market. Fixed remuneration is essentially based on the function exercised and its significance in accordance with applicable collective agreements or, for positions not covered by such agreements, market conditions. The duties and requirements of the position, the qualifications and skills required of the employees and sustained individual performance are among the factors relevant for determining remuneration.

Generally speaking, a review of fixed salaries takes place once a year, when the performance-related variable remuneration (bonus) is also determined. The decision as to which employee receives an individual increase and/or a bonus is made by the responsible manager. The percentage of women and men with measures and their average size are made transparent to executives to help them in their decision-making.

Gender-specific remuneration is additionally disclosed in internal and external reports, for example in the sustainability report, which is published once a year.

The following table sets out the gender distribution of part-time and full-time positions.

Human resources indicators for LBBW (Bank) – average total for 2017 (pre-year figures in brackets).

	Total		of which women		of which men	
Employees	8 706	(9 135)	4 564	(4 781)	4 142	(4 355)
Full-time employees	6 087	(6 593)	2 242	(2 459)	3 845	(4 135)
Part-time employees	2 619	(2 542)	2 322	(2 322)	297	(220)

Combined management report.

The LBBW (Bank) management report and the group management report are combined in accordance with Section 315 (5) HGB (Handelsgesetzbuch – German Commercial Code) in conjunction with Section 298 (2) HGB and published with the consolidated financial statements in the 2017 Annual Report of LBBW.

Group overview.

This annual report published by Landesbank Baden-Württemberg comprises the combined management report and the consolidated financial statements (IFRS). The management report of LBBW (Bank) and the group management report are combined in accordance with German Accounting Standard (DRS) 20. The report thus comprises both the Group and LBBW (Bank) as a single entity, with notes based on the German Commercial Code. The LBBW (Bank) annual financial statements according to the German Commercial Code (HGB) and the combined management report are published simultaneously in the German Federal Gazette (Bundesanzeiger).

For the first time, the combined management report also includes a combined non-financial statement. This is based on five aspects: the environment, social responsibility, the treatment of employees, respect for human rights, and anti-corruption as well as bribery. As a result, the chapters on employees and sustainability, which were previously separate chapters, have been omitted in the combined management report. Information on the employee numbers can be found in the business report.

Structure and business model.

The Landesbank Baden-Württemberg (LBBW) Group predominantly comprises the single entity Landesbank Baden-Württemberg, which is referred to below as LBBW (Bank). LBBW (Bank) is the parent company of the LBBW Group.

LBBW (Bank) is a public law institution (rechtsfähige Anstalt öffentlichen Rechts) with four registered offices: Stuttgart, Karlsruhe, Mannheim and Mainz. Its owners are the Savings Bank Association of Baden-Württemberg (Sparkassenverband Baden-Württemberg) with 40.534%, the state capital Stuttgart with 18.932% and the State of Baden-Württemberg with 40.534% of the share capital. The State of Baden-Württemberg holds its share directly and indirectly through Landesbeteiligungen Baden-Württemberg GmbH.

The LBBW Group offers the full range of products and services that a universal bank provides. The Group's business model focuses on customer business as reflected by its segments of Corporate Customers, Real Estate/Project Finance, Capital Markets Business and Private Customers/Savings Banks. The LBBW Group operates in its regional core markets of Baden-Württemberg, Rhineland-Palatinate and Saxony and selectively takes advantage of growth opportunities in attractive economic areas such as North-Rhine Westphalia, Bavaria and the greater Hamburg area. The business activities of LBBW (Bank) in the 2017 financial year were pooled under the umbrella of four brands – LBBW, BW-Bank, LBBW Sachsen Bank and LBBW Rheinland Pfalz Bank.

LBBW plans to simplify the Group structure and reduce its brand diversity by breaking up its dependent unit LBBW Sachsen Bank. The retail customer business in LBBW Sachsen Bank's market region would then operate under the name BW-Bank, while its corporate customer business would operate under the LBBW brand. Similar options as in Saxony may in the future also be looked into for LBBW Rheinland-Pfalz Bank. There have not been any final committee decisions in this regard.

Group companies for special products (leasing, factoring, asset management, real estate and equity investment finance) supplement the LBBW Group’s portfolio of services. A global network of international locations and German Centres is also available to support customers with country-specific expertise and financial solutions as well as with market entry solutions.

As a mid-sized universal bank, LBBW has the highest standards when it comes to the quality of its services and customer focus. In light of the many and varied challenges posed in the areas of economic performance, customer requirements, market trends as well as society and the environment, the Bank sees itself to be well-positioned with its four strategic priorities:

- **Business focus**: LBBW aims to grow by expanding its already strong customer base. In addition, its specialized product expertise will, in the future, be more heavily dovetailed with its customer segments. The requirements for success are efficiency improvements and an effective operating model.
- **Digitalization**: This strategic priority seeks to bring the Bank's competitive benefits into the digital age. In the first instance, central customer business procedures need to be digitalized and innovative products and solutions offered. Second, faster and leaner processes are needed through process digitalization and a modernization of the IT infrastructure.
- **Sustainability**: LBBW aims to gradually expand its portfolio of sustainable products and services and to help our customers navigate the challenges they will face in the future in establishing sustainable business models. One critical step here is adjusting the lending policy to meet sustainability and risk criteria. The sustainability efforts are expected to be rounded off by building up talent management that is geared toward LBBW's strategic goals for the in-house development of suitable candidates at all levels.
- **Agility**: Quick, unbureaucratic decision-making channels, a stronger customer- and solution-oriented approach as well as autonomous cross-divisional cooperation constitute the core of embedding the agility aspect within LBBW.

Corporate Customers.

In the Corporate Customers segment the focus is on traditional SMEs, companies in the upper SME segment with capital market orientation and groups with a constant capital market focus in the regional core markets and other attractive economic areas, such as North Rhine-Westphalia, Bavaria and the greater Hamburg area.

The LBBW Group implements its universal bank approach with a broad range of products and services, extending from international business to all forms of financing, payments, hedging transactions and asset management. In its core markets LBBW is also a partner of municipalities.

Various subsidiaries such as SüdLeasing, MKB Mittelrheinische Bank/MMV Leasing, SüdFactoring and Süd Beteiligungen supplement this segment's offering.

Real Estate/Project Finance.

The Real Estate/Project Finance segment serves professional investors, real estate investment trusts and housing companies as well as open and closed-end real estate funds in commercial real estate. Types of use include residential, office, retail and logistics, principally on the target markets of Germany, USA, UK and, selectively, in France and Canada. LBBW's syndication business focuses on structuring and arranging large-volume transactions. It also offers refinancing solutions for real estate lease transactions.

The Project Finance subsegment comprises project and transport finance for major projects, rail vehicles and aircraft. Customers include investors, users, key suppliers and subcontractors. The emphasis is on stable, low-risk fields with little market risk, for example public-sector projects, infrastructure, renewable energies and jurisdictions with stable general conditions. The regions of North America, the UK and continental Europe are at the center of focus here.

The subsidiary LBBW Immobilien Management GmbH offers supplementary real estate services.

Capital Markets Business.

The Capital Markets Business segment is in charge of Savings Banks, institutional customers and banks. LBBW is the central bank for the savings banks in the core markets of Baden-Württemberg, Saxony and Rhineland-Palatinate. Together with the savings banks, it forms a service partnership and provides them with a wide range of products and services, both for savings banks' proprietary business and the market partner business. Services such as research or securities processing and administration are offered for further distribution to the customers of the savings banks. The Bank also selectively offers products and services to other savings banks beyond the core markets.

Furthermore, within this segment the customer-oriented capital market business with banks and institutional customers is bundled and closely linked. The product range is aimed consistently at the customer's requirements and comprises capital market investments, (capital market) financing, risk management products and financial services (including the custodian bank function), and research. Export-oriented customers are supported specifically through LBBW's tailor-made offers for foreign business and its international network. The product expertise in the Capital Markets Business segment will be provided for customers in the Corporate Customer segment as well.

LBBW's asset management business is pooled within the group subsidiary LBBW Asset Management Investmentgesellschaft mbH. The main business areas are the management of special funds and direct investment mandates for institutional investors, together with mutual funds for institutional and private investors.

Private Customers/Savings Banks.

The private customers/Savings Banks segment comprises the classic and upscale private customer business as well as the meta-and development lending banking sector with Savings Banks. BW-Bank is the Savings Bank of the state capital, Stuttgart. It offers its full range of services, while its complete scope of financial and other services guarantees citizens the full array of basic banking services.

In addition to the classic retail customer segment, the business model beyond Stuttgart is also orientated towards higher-income private customers in Baden-Württemberg, Rhineland-Palatinate and Saxony as well as other attractive economic regions such as Hamburg, Munich and Düsseldorf.

The comprehensive range of products and services extends from classic checking accounts, credit card business and basic financing to securities management, asset management and pension-savings solutions for those with a considerable portfolio of assets and complex asset structures.

LBBW furthermore offers savings banks the opportunity, by way of joint credits, to share credit risk, thus playing an important role when it comes to offering development loans to savings bank customers.

Segment allocation and coordination.

The Corporates segment, which is comprised of the business with corporate customers, real estate customers and project finance customers, was split up into the segments of Corporate Customers and Real Estate/Project Finance in early 2018. The Capital Markets Business segment, together with the treasury activities assigned, largely corresponds to the business with Savings Banks, institutional customers and banks. Business with private customers as well as the joint loan and development loan business with Savings Banks was moved to the Private Customers/Savings Banks segment at the beginning of 2018. These activities were managed under the name Retail/Savings Banks until the end of 2017. LBBW's segment reporting additionally includes the Credit Investment and Corporate Items segments. After the nearly complete sale of the Sealink portfolio by the manager in the year under review, the remaining parts of the Credit Investment segment were integrated into Corporate Items in early 2018. Information on the segments can be found in the segment report (IFRS) included in the Notes.

Within this business model, LBBW's Board of Managing Directors manages the Bank as a whole by tracking a set of performance indicators along the strategic segments in the light of the Group's risk-bearing capacity. The information required for managing the LBBW is provided through comprehensive, target-oriented monthly reports. The following financial performance indicators are of particular relevance to the management of the Group:

- common equity Tier 1 capital ratio (in accordance with CRR/CRD IV after full implementation)
- total capital ratio (in accordance with CRR/CRD IV after full implementation)
- risk weighted assets (in accordance with CRR/CRD IV)
- leverage ratio (in accordance with CRR/CRD IV after full implementation)
- consolidated profit/loss before tax (IFRS)
- for information: net profit before tax (HGB) in the case of LBBW (Bank)
- cost/income ratio
- consolidated total assets (IFRS)
- utilization of the aggregate risk cover (Bank's own calculation pursuant to MaRisk)
- return on equity
- liquidity coverage ratio (in accordance with CRR/CRD IV in conjunction with Commission Delegated Regulation (EU) 2015/61)

Over the course of 2018, the management will turn its focus more to the net stable funding ratio (in accordance with CRR/CRD IV).

Business report for the Group.

Overall economic development.

Global economy.

The past year saw a global economic revival. The International Monetary Fund estimates that global GDP grew by 3.7% in 2017 after 3.2% in 2016. GDP growth in the euro area accelerated from 1.8% to 2.5%. The USA also saw in improvement in its economy, with a rise in growth from 1.5% in 2016 to 2.3% in 2017. China's economic output increased by 6.9% versus 6.7% in 2016.

The price of oil reported two different trends. In the first half of the year it dropped from over USD 56 per barrel of Brent to roughly USD 45. It then climbed to USD 66 by the time 2017 came to an end. On average for 2017, the oil price was approximately USD 10 above the 2016 prices and acted as a driver of inflation around the globe. Inflation in the euro area increased from 0.2% to 1.5%.

Germany.

Economic output in Germany grew by 2.2% in 2017. After adjusting for the calendar effect, the improvement came to 2.5%. The 2016 rate of increase was 1.9%. Growth was driven by domestic demand. In particular, private consumption and investment were up sharply. Foreign trade only made a marginally positive contribution. Rising energy prices combined with a hike in food prices were largely responsible for pushing up the rate of inflation in Germany from 0.5% to 1.8% in the year under review.

Central bank policy.

With economic prospects looking up and inflation rates on the rise, the need for an extremely expansionary monetary policy in the euro area has become less pressing. The Governing Council of the ECB has gone to great lengths to emphasize the predominant downside risks to the economy. In April, however, the ECB scaled back its monthly bond-buying from EUR 80 billion to EUR 60 billion. In October the ECB's Governing Council decided to cut its monthly purchases in half to EUR 30 billion starting in January 2018 and to limit its bond-buying until the end of September 2018. Maturities from previous bond purchases are being reinvested. The ECB did not adjust its key interest rates in the period under review. The main refinancing rate is still 0% and the deposit facility rate comes to –0.40%.

In the USA, the economic upturn and greater pricing pressure led the Federal Reserve to raise its key interest rates a total of three times last year, specifically by 25 basis points in each of March, June and December. This put the target range for the federal funds rate at 1.25% to 1.50% at the end of the year.

Bond market.

The bond market was primarily influenced by two factors. The first was the fear of Eurosceptic political parties gaining ground in the euro area. These parties received a considerable degree of voter approval both in the Netherlands and in France. In particular, the markets watched with concern when it seemed that a run-off presidential election between two extreme candidates from the left and the right in France might be on the cards. In the end, the pro-European forces unequivocally prevailed. Yields on 10-year Bunds hit a low in mid-April at 0.18%. This came just a few days before Emmanuel Macron entered the run-off election and it became apparent that he looked set to be the clear winner. Yields then peaked in early July at 0.57% (close according to Reuters). The yield increase in the summer was triggered by a speech given by ECB President Mario Draghi at a monetary policy conference in the Portuguese town of Sintra. The markets had initially taken his words to mean that the ECB intended to tighten its monetary policy, but these expectations turned out to be premature and were corrected later in the year. At year-end, the yield on 10-year Bunds came to 0.42%. As for the USA, the uncertainty over the inflation rate and, in relation to it, the monetary policy course pursued by the Federal Reserve caused a general decline in yields in the first half of the year. It was only in the second half of the year, when it emerged that the Fed would further tighten its monetary policy, that yields rose again. The yield on 10-year Treasuries at the end of 2017, at 2.41%, was just a bit below the previous year's close of 2.43%. The yields on 2-year Treasuries in the same period rose on balance from 1.18% to 1.88%, as a result of which the Treasury US yield curve as measured by the difference in time to maturity of the 10-year and 2-year Treasuries flattened significantly.

Currency market.

The EUR started 2017 at an exchange rate of nearly USD 1.05 per EUR before appreciating to USD 1.20 per EUR by the end of August and finally ending the year at USD 1.1993 per EUR. The EUR benefited from the economic recovery in the euro area as well as easing of concerns over political risks in some of the monetary union's member states in the first half of the year.

Stock market.

The year 2017 was one of additional gains for the stock market. Expectations of a good economy combined with continuously low key interest rates prompted pronounced gains in share certificates around the globe. The benchmark index in the US, the S&P 500, started the year at 2 251 points and closed it out at 2 673 points. Germany's benchmark index, the DAX, started at 11 426 and closed out at 12 917 points. But in the final quarter, the DAX reported no further gains all told. This phase of stagnation coincided with the difficulties Germany faced in forming a government following the Bundestag election at the end of September that brought about pronounced losses for the Grand Coalition that had governed up to that point and the difficulties it experienced after attempts to form a coalition between the CDU and CSU, the Liberals and the Greens failed at the end of November.

Banking industry performance.

The stable economic conditions in Germany, which also led to a rise in loan demand, benefited the German banking industry in 2017. Predominantly good asset quality and, with this, a lower need for allowances for losses on loans and advances, together with the robust performance of the real estate market supported the industry's development last year. At the same time the banks were burdened by persistently high competitive and margin pressure. The effects of the low and negative interest rate environment are manifesting themselves to an ever-increasing extent, especially for banks with business models that depend heavily on interest. The banking industry continues to face significant pressure to adjust, triggered by new regulatory conditions and technological changes. The industry's cost and income situation remained strained in this environment.

Business performance of the LBBW Group. Results of operations, net assets and financial position.

Business development in 2017.

On the one hand, the LBBW Group's year was marked by stable general economic conditions overall in Germany and these turned out to be the basis for a solid net profit for the year. The business performance had an even stronger focus on the customer business and the Group moving further in the direction set out in a strategy initiative in the spring of 2017, namely of digitalization, sustainability and agility. It has already made significant progress in this regard, for example with an expansion of the digital offering, successful transactions using blockchain technology as a basis, and the implementation of a new core banking system completed in April. LBBW established a good position on the market with its sustainable products. In October 2017, for example, it was involved in the issue of a »green« borrower's note for the first time as an arranger. This was followed by the first-time issue of its own green bond shortly before the end of the year.

However, the Bank's business performance was also influenced by intense competition in the banking industry. Together with other challenges arising from regulation and high investment pressure as a result of digitalization, this was seen as a sign of radical change within the industry. The fact that key interest rates in the euro area remained low also heightened the pressure on banks' earnings positions. Despite the basic agreement reached in December 2017 between the United Kingdom and European Union on the terms of the UK's exit from the EU, there are still factors of uncertainty making it tough to reliably assess the effects it will have on the banking landscape. LBBW believes the effects of a Brexit will be very manageable overall and will confront the risks by continuing to monitor the situation. With the Sealink portfolio sale nearly complete, the last major legacy encumbrance remaining from the financial crisis was dismantled at the end of 2017. This came with a slight reduction in assets on the balance sheet and, especially when looking to the future, the disappearance of the guarantee payments that had weighed on LBBW's income statement over many years.

Overall, LBBW has a solid basis for growing in a risk-oriented manner once again after years of scaling back its total assets and risk, and for prioritizing its cost discipline and continuing to focus on its customers and solutions.

Consolidated profit/loss before tax improved markedly by EUR 373 million and came to EUR 515 million at the end of the 2017 financial year (previous year: EUR 142 million). This significantly exceeded the forecast, with nearly all income items contributing to the result. Net gains/losses from financial investments were considerably higher, benefiting from the sale of securities and equity investments, even though these were down significantly from the previous year's level. The net fee and commission income turned out moderately better than planned after seeing a boost in the custody and lending business among others. Net interest income was marginally higher than the budgeted figure; adjusted for a change in reporting, it fell only slightly short of expectations. On the other hand, this change in reporting represented an encumbrance to net trading gains/losses in the same amount. Even without taking this effect into account, net gains/losses from financial instruments measured at fair value were noticeably below the budget.

Given that LBBW's loan portfolio is still of good quality and the economic situation in Germany is stable, the net addition to allowances for losses on loans and advances was at the level expected. Administrative expenses were marginally below the forecast figures and thus close to what was expected.

The **cost/income ratio (CIR)** as at 31 December 2017 amounted to 74.8%. This put the figure at the level from last year (74.3%) and within the forecast. LBBW calculates the CIR from the ratio of administrative expenses to the total of net interest income, net fee and commission income, net gains/losses from financial instruments measured at fair value through profit or loss and other operating income/expenses. The **return on equity (RoE)** improved to 4.1% (previous year: 1.1%), mostly as a result of the omission of an extraordinary effect from the goodwill impairment in the previous year. This figure was also significantly higher than the projected figure due to a higher result. RoE as a performance indicator is calculated on the basis of (annualized) consolidated profit/loss before tax and average equity on the balance sheet, adjusted for the effects on earnings reported directly in equity.

Total assets fell by EUR 5.9 billion versus the end of 2016 to EUR 237.7 billion. After adjusting for the effects from the almost fully complete sale of the Sealink portfolio[1], however, total assets rose marginally year-on-year. The figure fell just short of what was projected due to the repayment of loans to Sealink and the divestment of the GPBW & Co. KG guarantee bond in particular.

LBBW's **leverage ratio**, at 4.6% (in accordance with CRR/CRD IV, »fully loaded«), saw no change from the previous year and substantially exceeded the minimum 3.0% stipulated by the supervisory authorities.

As at the reporting date of 31 December 2017, LBBW's **minimum liquidity coverage ratio (LCR)** under the Commission Delegated Regulation (EU) 2015/61 pertaining to liquidity coverage ratios stood at 145.8%, which represents an improvement of 35.4 percentage points over the end of 2016 (previous year 110.4%). Accordingly, the statutory minimum for 2017 of 80% was significantly exceeded.

Risk weighted assets fell slightly by EUR 1.7 billion in the period under review to EUR 75.7 billion (previous year: EUR 77.4 billion). In addition to a methodological improvement in mapping risks from equity positions, this is based on an improvement to the portfolio of corporate customers and real estate. The positive business development had a counteracting effect on the counterparty risk.

The LBBW Group's **capital ratios** as at the reporting date remained well in excess of the regulatory capital requirements (CRR/CRD IV »fully loaded«). Specifically, the **common equity Tier 1 capital ratio** came to 15.7% (31 December 2016: 15.2%) and the **total capital ratio** to 22.2% (31 December 2016: 21.5%).

1 The background information on and effects of the sale of the Sealink portfolio are described in detail in the financial position, with detailed information on the effects in the balance sheet.

The European Central Bank (ECB) informed LBBW that it is required to maintain a common equity Tier 1 capital ratio of 8.80% as of 1 January 2018. This ratio includes the Pillar 2 capital requirement as well as the common equity Tier 1 capital to be held as a capital conservation buffer in accordance with Section 10c of the German Banking Act (KWG) and as a capital buffer in accordance with Section 10g KWG for other systemically important financial institutions. Section 10d KWG stipulates that a countercyclical capital buffer must be held for a marginal proportion of foreign receivables. The ECB has also declared a capital recommendation that goes beyond the mandatory requirement, which must also comprise CET1 capital.

The LBBW Group's risk-bearing capacity is likewise at a comfortable level. Utilization of **aggregate risk cover (ARC)** stood at 41.9% as at the reporting date in 2017 and was thus down slightly from the figure at the end of 2016.

The LBBW Group's central performance indicators showed a further improvement year-on-year overall at the end of the 2017 financial year.

Results of operations.

With consolidated profit before tax of EUR 515 million in the 2017 financial year, LBBW exceeded the previous year's figure considerably, by EUR 373 million. The LBBW Group's income statement is shown in condensed form below (please refer to the Notes for details of the figures for the individual segments):

Figures:

	1 Jan. – 31 Dec. 2017 EUR million	1 Jan. – 31 Dec. 2016[1] EUR million	Change EUR million	in %
Net interest income	1 587	1 669	– 82	– 5
Allowances for losses on loans and advances	– 92	– 51	– 41	81
Net fee and commission income	534	527	7	1
Net gains/losses from financial instruments measured at fair value through profit or loss	219	146	73	50
Net gains/losses from financial investments and net income/expenses from investments accounted for using the equity method	163	195	– 32	– 17
Other operating income/expenses	101	101	0	0
Total operating income/expenses (after allowances for losses on loans and advances)	**2 511**	**2 586**	**– 75**	**– 3**
Administrative expenses	– 1 824	– 1 814	– 11	1
Guarantee commission for the State of Baden-Württemberg	– 61	– 93	– 32	– 34
Expenses for bank levy and deposit guarantee system	– 69	– 71	2	– 2
Impairment of goodwill	0	– 379	379	– 100
Net income/expenses from restructuring	– 41	– 87	47	– 54
Consolidated profit/loss before tax	**515**	**142**	**373**	**> 100**
Income taxes	– 97	– 131	34	– 26
Net consolidated profit/loss	**419**	**11**	**408**	**> 100**

Rounding differences may occur in this and subsequent tables for computational reasons.
1 Restatement of prior year amounts (see Note 2).

Net interest income declined only moderately by EUR – 82 million to EUR 1 587 million. This was owed in particular to the interest rates in the Eurozone remaining historically low. While the ECB's unchanged expansionary monetary policy, with negative interest rates in part, brought down LBBW's earnings contribution from its own funds investment, Wealth Management in particular saw improved earnings. Effects specific to accounting, for example in connection with the illustration of hedging relationships, did not significantly diminish the result. All told, the intense competition within the banking sector proved a strain, which was seen in the growing pressure on margins, especially when it comes to the new business with large corporate customers.

One sign of a slight normalization was the increase in net expense from **allowances for losses on loans and advances** of EUR – 41 million to EUR – 92 million (previous year: EUR – 51 million). While the additions to allowances for losses on loans and advances climbed marginally by EUR – 7 million, reversals declined significantly by EUR – 55 million. This figure contrasted with a marked drop in direct write-downs to the tune of EUR – 24 million (previous year: EUR – 80 million). Reversals of provisions for lending business were reported in the previous year, whereas additions were posted at the end of 2017. In addition, the recoveries on loans and advances already written off fell by EUR 11 million. Notwithstanding the higher net expense, allowances for losses on loans and advances remained below the long-term average, therefore reflecting the good portfolio quality and the good economic situation in LBBW's core markets.

The **net fee and commission income** improved marginally in 2017 by EUR 7 million to EUR 534 million (previous year: EUR 527 million). In particular, earnings from the custody business benefited from a good stock market performance and the acquisition of NordLB fund holdings concluded at the end of 2016. Net fee and commission income from loans and guarantees also put up a sound performance due to higher earnings in the surety business, among other things. Transaction-related fees and marginal growth of the card business also translated into a better result in payments. Net fees and commissions in the brokerage business were down slightly year-on-year as a result of low demand for life insurance and building loan agreements.

Net gains/losses from financial instruments measured at fair value through profit or loss posted a significant increase of EUR 73 million to EUR 219 million. This mostly reflected strong demand for capital-market solutions, especially investment products for retail customers. Lower valuation discounts for counterparty risks also improved earnings. After charges in the previous year, the actual result from hedge accounting also made a positive contribution to earnings. Negative effects from the measurement of derivative financial instruments that form part of economic hedges but cannot be included in hedge accounting were down year-on-year. Valuation effects in connection with hedging of loan syndication, on the other hand, increased the expense and weighed marginally on earnings.

Net gains/losses from financial investments and net income/expenses from investments accounted for using the equity method declined by EUR 32 million to EUR 163 million. Net gains/losses from securities also fell considerably to EUR 54 million. At EUR 78 million, net income/expenses from equity investments were also far below the previous year's figure, which benefited from the completion of the sale of cellent AG at the start of 2016, among other things. Furthermore, there was no repeat of the positive contributions from subsequent purchase price adjustments. Net income/expenses from investments accounted for using the equity method rose sharply to EUR 31 million.

Other operating income/expenses was unchanged from the previous year at EUR 101 million (previous year: EUR 101 million). Both income/expenses from investment properties and other operating income/expense in a narrower sense were constant year-on-year.

Despite extensive investments in future-proofing LBBW, **administrative expenses** also remained at the previous year's level, increasing marginally year-on-year by EUR -11 million to EUR – 1 824 million (previous year: EUR -1 814 million). Staff costs declined largely as a result of the drop in employee numbers, falling to EUR – 1 026 million (previous year: EUR – 1 036 million). Despite considerable expenses incurred in modernizing the IT architecture, for example by implementing the new core banking system in April and high investment in increased digitalization, the other administrative expenses remained constant year-on-year at EUR – 691 million (previous year: EUR – 688 million). It should be noted here that the high investment level from 2016 in a long-term comparison was maintained. Depreciation of property and equipment and amortization of intangible assets came to EUR – 108 million after EUR – 89 million in the previous year. The noticeable increase was attributable to higher write-downs on intangible assets, which were downstream from the previous years' investments. Lower depreciation of property and equipment was not able to fully offset this effect.

The state of Baden-Württemberg had issued a guarantee until mid-December for certain loans to the special purpose entity Sealink. For this, the Bank paid a **guarantee commission** of EUR – 61 million in 2017. Given the falling loan volume again in 2017 and the sale of the Sealink portfolio by the manager that was nearly complete in Q4, the commission was reduced by EUR 32 million versus the previous year.

Expenses for the bank levy and deposit guarantee system fell by EUR 2 million to EUR – 69 million compared with the previous year.

Following the complete impairment of **goodwill** assigned to the Corporates segment in the amount of EUR 379 million in the previous year, LBBW no longer carries goodwill on the balance sheet.

Net income/expenses from restructuring amounted to EUR – 41 million in 2017 (previous year: EUR – 87 million) in connection with the planned restructuring undertakings. The amount primarily relates to provisions being set aside for restructuring of back office divisions relevant to the loan business and to programs aimed at improving the efficiency of other operating procedures.

Consolidated profit/loss before tax, at EUR 515 million, was up markedly year-on-year by EUR 373 million. This largely correlated with the omission of the goodwill impairment from the previous year of EUR 379 million.

The **income tax expense** fell to EUR – 97 million (previous year: EUR – 131 million), mainly as a result of lower deferred taxes. With the positive business expectations of the New York branch, the deferred taxes on tax loss carryforwards were recognized for the first time there. The use of tax loss carryforwards was also a critical step in reducing deferred taxes, while non-periodic taxes rose over the previous year.

Net consolidated profit/loss improved markedly by EUR 408 million and came to EUR 419 million (previous year: EUR 11 million).

Net assets and financial position.

Assets	31 Dec. 2017 EUR million	31 Dec. 2016[1] EUR million	Change EUR million	Change in %
Cash and cash equivalents	22 729	13 532	9 198	68.0
Loans and advances to banks	48 184	39 288	8 896	22.6
Loans and advances to customers	108 332	111 232	– 2 900	– 2.6
Allowances for losses on loans and advances	– 684	– 828	144	– 17.4
Financial assets at fair value through profit or loss	31 386	50 175	– 18 789	– 37.4
Financial investments and shares in investments accounted for using the equity method	23 092	25 926	– 2 833	– 10.9
Portfolio hedge adjustment attributable to assets	606	764	– 158	– 20.7
Non-current assets and disposal groups held for sale	104	191	– 87	– 45.4
Intangible assets	244	249	– 5	– 1.9
Investment property	554	574	– 19	– 3.4
Property and equipment	482	507	– 26	– 5.1
Current income tax assets	92	116	– 24	– 20.7
Deferred income tax assets	1 016	1 037	– 20	– 2.0
Other assets	1 575	861	714	82.9
Total assets	**237 713**	**243 623**	**– 5 910**	**– 2.4**

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

Equity and liabilities	31 Dec. 2017 EUR million	31 Dec. 2016[1] EUR million	Change EUR million	Change in %
Deposits from banks	61 895	44 568	17 327	38.9
Deposits from customers	79 415	70 641	8 773	12.4
Securitized liabilities	44 432	34 343	10 089	29.4
Financial liabilities at fair value through profit or loss	27 922	69 846	– 41 925	– 60.0
Portfolio hedge adjustment attributable to liabilities	239	485	– 246	– 50.7
Provisions	3 796	3 734	62	1.7
Current income tax liabilities	47	57	– 10	– 17.6
Deferred income tax liabilities	28	31	– 3	– 9.9
Other liabilities	1 199	889	310	34.9
Subordinated capital	5 364	5 895	– 531	– 9.0
Equity	13 377	13 134	242	1.8
Share capital	3 484	3 484	0	0.0
Capital reserve	8 240	8 240	0	0.0
Retained earnings	820	1 014	– 195	– 19.2
Other income	371	348	23	6.5
Unappropriated profit/loss	416	10	406	> 100
Equity attributable to non-controlling interests	46	38	8	21.1
Total equity and liabilities	**237 713**	**243 623**	**– 5 910**	**– 2.4**
Guarantee and surety obligations	6734	5 971	763	12.8
Irrevocable loan commitments	22 412	22 784	– 372	– 1.6
Business volume	**266 859**	**272 378**	**– 5 520**	**– 2.0**

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

Consolidated total assets reduced.

Total assets fell by EUR – 5.9 billion versus the end of 2016 to EUR 237.7 billion. A considerable portion of the change can be traced back to the nearly complete sale of the Sealink portfolio by the manager, which was connected with the acquisition of Sachsen LB in 2008. After adjusting for the effects in connection with the portfolio sale, total assets rose marginally versus the previous year.

The **business volume** (consolidated total assets including the off-balance-sheet surety and guarantee agreements and irrevocable loan commitments) at the LBBW Group dropped by EUR – 5.5 billion year-on-year to EUR 266.9 billion. This was almost entirely attributable to the decline in the balance sheet figures.

In the course of the strategic realignment of the capital markets business, new business for liquidity management purposes has been reported in the non-trading portfolio since the second half of 2016. The execution of this strategy was completed in the first half of 2017 and is now being put into practice at the branches in other countries.

This meant clear changes from 31 December 2016 in the form of shifts in the volumes of trading assets and trading liabilities as well as advances to customers and banks, and deposits from customers and banks.

The favorable market environment led the manager to sell almost the entire portfolio of the Sealink Funding special purpose entity by the manager following a mutually agreed commission from the Free State of Saxony, in which the securities of the former Sachsen LB were bundled, to international investors. The portfolio, which had originally amounted to EUR 17.3 billion, had been channeled into this special purpose entity before Sachsen LB was sold to LBBW in 2008. LBBW refinanced Sealink using a loan that in turn was secured via a guarantee by the state of Baden-Württemberg.

The sale of most of the portfolio means that Sealink no longer poses a risk for LBBW as an owner, and that the last major burden from the financial market crisis has thus been offloaded. As a result of this transaction the risk shield provided by the State of Baden-Württemberg was no longer required, thus fully dissolving the shield established in 2009 without having had to make use of the guarantee.

Sustainability is one of LBBW's four strategic thrusts on the road to greater growth and efficiency. To underscore the importance of sustainability, LBBW forged ahead with its successful placement of green issues and, in 2017, issued its first own green bond[1]. The senior unsecured bond had a volume of EUR 750 million and a four-year term.

Lending.

The **cash reserve** amounted to EUR 22.7 billion as at 31 December 2017 and was therefore EUR 9.2 billion higher than the previous year's figure. The growth was mainly due to a rise in cash deposits held with central banks.

Loans and advances to banks increased by EUR 8.9 billion, thereby reaching a closing balance of EUR 48.2 billion. In connection with the ongoing realignment of the liquidity management, overnight and term money rose by EUR 6.0 billion to EUR 7.2 billion. The repo business grew by EUR 2.5 billion to EUR 10.1 billion. Public-sector loans, which mainly comprise the routing of subsidies to savings banks, increased by EUR 0.7 billion to EUR 26.5 billion.

The portfolio of **loans and advances to customers**, in contrast, declined by EUR – 2.9 billion and came to EUR 108.3 billion as at the current reporting date. Among other things, the sale of the Sealink portfolio was a key component in reducing this figure. In the case of public-sector loans, this

1 Please refer to http://www.LBBW.de under Press > Press Releases for further information on this.

had an effect via the repayment of the guarantee financing loans to Sealink in the amount of EUR –1.2 billion, and in the case of the other loans, via the repayment of the junior loan to Sealink to the tune of EUR – 3.1 billion. Adjusted for this effect, loans and advances to customers rose by EUR 1.4 billion. In particular, transactions with SME customers and major corporate customers were expanded here.

Financial assets measured at fair value through profit or loss fell by EUR – 18.8 billion to EUR 31.4 billion, mainly as a result of a drop in trading assets. In addition to the decline in bank and customer-driven money market transactions by EUR – 8.8 billion due to the strategic realignment of the capital market business, this item saw a market-related interest-driven decline in positive fair values from trading derivatives amounting to EUR -6.2 billion and the divestment of bonds and debentures to the tune of EUR – 2.3 billion. The latter were reduced mainly as a result of repayments and sales of domestic loans.

Financial investments and shares in investments accounted for using the equity method saw a marginal drop by EUR – 2.8 billion to EUR 23.1 billion. This was mostly attributable to the decline in debentures and other fixed-interest securities in the loans and receivables category, which mainly pertains to the divestment of the GPBW GmbH & Co. KG guarantee bond worth EUR - 4.3 billion in connection with the Sealink portfolio sale.

Funding.

On the liabilities side of the consolidated balance sheet, compared with the previous year the main items affected by major volume changes were trading liabilities, deposits from banks, securitized liabilities and deposits from customers. A considerable portion of the decline was caused by cash collateral deposited for the risk shield granted by the State of Baden-Württemberg. With the sale of the Sealink portfolio being nearly complete, giro deposits from customers fell accordingly.

Compared to 31 December 2016, the portfolio of **deposits from banks** increased in 2017 by EUR 17.3 billion to EUR 61.9 billion. This came mainly as a result of the increase in overnight and term money, which was attributable to the realignment of liquidity management, among other things. Consequently, the volume of deposits from overnight and term money from banks rose markedly by EUR 16.8 billion to EUR 24.2 billion. Transmitted loans saw a EUR 1.7 billion increase. Current account liabilities on the other hand fell by EUR – 0.6 billion.

Deposits from customers were up EUR 8.8 billion from year-end 2016 to EUR 79.4 billion. Current account liabilities in particular increased by EUR 7.0 billion. Contributions from overnight and term money rose by EUR 6.3 billion despite the withdrawal of funds deposited as cash collateral for the risk shield. The increase in short-term funding was mainly due to the adjustments made to liquidity management. On the other hand, funding with securities repurchase transactions dropped by EUR –3.6 billion.

The balance sheet item **securitized liabilities** climbed by EUR 10.1 billion in 2017 to EUR 44.4 billion. Short-term funding via securitized money market transactions was also increased by EUR 7.1 billion, mainly in the course of realigning liquidity management. New issues caused the volume of other debentures to rise by EUR 2.0 billion to EUR 17.4 billion. This was primarily attributed to two benchmark issues, including LBBW's first successful issue of a green bond with a volume of EUR 750 million.

In line with the development of the item on the assets side, **financial liabilities measured at fair value through profit or loss** decreased by EUR –41.9 million to EUR 27.9 billion. This was mainly due to the lower volume of trading liabilities. As with the assets side, this decline correlated to the previously described adjustments to liquidity management. In particular, the result was a marked drop in money market transactions by EUR –28.7 billion and EUR -6.6 billion worth of securitized liabilities. Negative fair values from trading derivatives were reduced mainly as a result of interest-driven effects in the amount of EUR –5.9 billion.

Equity.

LBBW's **equity** rose by EUR 0.3 billion as at 31 December 2017 to EUR 13.4 billion. After the extraordinary effect from the complete goodwill impairment in the amount of EUR 379 million brought down the unappropriated profit to EUR 10 million as at the end of 2016, an unappropriated profit of EUR 0.4 billion remained at the end of the current 2017 financial year.

Financial position.

LBBW once again aimed to have a balanced refinancing structure in the past financial year. Here the Group focused on ensuring a balanced structure in terms of the groups of products and investors used. The Group's financial position throughout the entire reporting year was satisfactory on account of the good liquidity situation. LBBW was at all times able to obtain funding on the market on the requisite scale. The LiqV liquidity indicator, which is only determined at the Bank level, improved to 1.92 as at the reporting date of 31 December 2017 (previous year: 1.50). This is the last time this figure will be indicated, as LiqV will no longer have to be reported due to the fact that a 100% LCR must be maintained for CRR banks starting 1 January 2018. The LCR as at 31 December 2017 is 145.8%.

Employees.

Dedicated, motivated and efficient employees are central to the success of every company. This is particularly the case for the financial services sector, which is under significant pressure to change. In addition to integrity, excellent professional skills and in-depth customer orientation, a constant willingness to change and to be open to new market developments are factors becoming increasingly important as success criteria in competition.

In view of the advancing digitalization, tighter regulatory requirements and a long-lasting phase of low interest rates, LBBW and the entire industry is forced to renew its offerings and the underlying processes in ever faster cycles. Consistent customer-orientation, high adaptability and a willingness to work in a flexible manner will therefore continue to be of great importance for the success of the LBBW Group.

LBBW is very demanding of itself and hence of its workforce. At the same time, it offers attractive workplaces with development potential for ambitious employees who relish in success. LBBW reports extensively on its offerings and benefits as an attractive employer in its non-financial statement, as a component of its combined management report.

Employee numbers.

	LBBW (Bank)		LBBW	
	2017	2016	2017	2016
Employees	8 574	9 030	10 326	10 839
Proportion of women	52.6 %	52.4 %	52.6 %	52.5 %
Proportion of men	47.4 %	47.6 %	47.4 %	47.5 %
Part-time employees	30.9 %	28.6 %	29.1 %	26.9 %
Full-time employees	69.1 %	71.4 %	70.9 %	73.1 %
Apprentices (including students at universities of cooperative education)	281	369	300	394
Proportion of apprentices	3.3 %	4.1 %	2.9 %	3.6 %

As at 31 December 2017, the number of employees at LBBW fell to 10 326 (previous year: 10 839), also due to the adjustments to its strategic alignment. The staff fluctuation rate based on the Confederation of German Employers' Association's (BDA) formula rose to 7.4 % for LBBW (Bank) in 2017, up from 4.6 % in the previous year. Adjusted for restructuring-related early retirement and severance agreements (3.5 %), the rate at 3.9 % slightly exceeded the previous year's figure at LBBW (Bank).

At 44.8 years, the average age of employees at LBBW (Bank) in the year under review increased slightly over the previous year (44.2 years). The average length of service also increased marginally to 18.9 years, a slight rise for the Bank (previous year: 18.3 years). The proportion of female employees, in contrast, remained nearly unchanged in 2017 at 52.6 %. The proportion of part-time employment contracts, including reduced working hours due to partial retirement, in turn rose at LBBW from 26.9 % to 29.1 %.

Risk and opportunity report.

Basic principles.

Risk-oriented integrated bank management.

LBBW defines risk management as the use of a comprehensive set of tools to address risks within the scope of the risk-bearing capacity and the strategy set out by the Board of Managing Directors. Risks and the associated opportunities for income and growth potential should be taken within the scope of the internal control process and defined risk appetite, in a deliberate and controlled manner.

The internal control process and the guidelines arising from risk appetite thus form a core element of the Group-wide system for risk-oriented integrated bank management and particularly comprises the organizational and operational structure, the risk management and control processes, and internal auditing.

Risk strategy.

The Board of Managing Directors and the Risk Committee of the Supervisory Board stipulate the principles of the risk management system by defining risk strategies that are consistent with LBBW's business strategy.

Risk strategy guidelines are defined in the group risk strategy, which applies to the entire Group and across all risk types, in accordance with the Minimum Requirements for Risk Management (MaRisk) and the relevant European standards. In this context, the Group risk strategy defines specifications on risk appetite from both qualitative and quantitative points of view that are to be observed in all business activities.

The quantitative part of risk appetite sets out concrete specifications in the form of thresholds for LBBW's material steering parameters – specifications are set out for times of normal business operations as well as under stress conditions.

As part of the quantitative risk appetite, the strategic limit system operationalizes the requirements and objectives defined in the business strategy for all material risk types covered by risk-bearing capacity. The upper risk limit for economic capital was defined by the Group's Board of Managing Directors, taking into account the aforementioned fundamental risk strategy requirements and the economic capital forecast for the coming five years for 2018, and allocated to the material risk types. Further details can be found in the section on the risk situation of the LBBW Group.

The liquidity risk tolerance caps the liquidity risk in the narrower meaning (i.e. it limits the risk of not meeting payment obligations). Further information can be found in the section on liquidity risks.

The risk guidelines form the qualitative element of risk appetite. They constitute the main strategic principles and rules of conduct that are used for weighing up risks and opportunities within the LBBW Group. They contribute to the creation of a uniform risk culture and – in accordance with materiality principles – form the framework for the precise organization of processes and methods of risk management. This qualitative element of risk appetite is completed with further guidelines – such as in the form of a Code of Conduct and Ethics which applies throughout the entire Group.

In addition, the specific risk strategies approved for each material risk type document the current and target risk profile of LBBW, specify customer-, product- and market-specific guidelines and thereby create the framework for medium-term planning together with the business strategy. Additional information on the specific risk strategies is provided in the sections on the respective risk type.

Operational implementation of these requirements is monitored by target/actual analyses, monthly analyses of results, as well as strategic and operational limit systems.

Risk management systems.

Risk capital and liquidity management.

Capital management at LBBW is designed to ensure solid capitalization within the LBBW Group, both in times of normal business operations and under stress conditions. In order to guarantee adequate capital and the consequent permanent viability of LBBW from various perspectives, the capital ratios and structures are analyzed from an economic, present-value view point (1st steering group) as well as from a regulatory perspective (2nd steering group). Both steering groups focus on achieving the corporates objectives for normal business operations, while making provisions for adequate stress resistance under stress conditions.

LBBW's risk management procedures are appropriately structured on the basis of the type, scope, complexity and risk content of the business activities and business strategy. The structure takes account of MaRisk and other relevant statements by national and international regulatory authorities.

All the principal risks are included in the risk management procedures. The processes, procedures and methods are regularly reviewed to ensure their adequacy and permanently further developed. These reviews also take account of the findings of the audits and the SREP process of the European Central Bank (ECB), of the statutory auditor and the Group Auditing division and these findings are implemented accordingly.

Risk types.

The overall risk profile of the LBBW Group is ascertained annually by Group Risk Control on the basis of the Group risk inventory and is presented to the Board of Managing Directors in the form of a risk map for approval. Risk measurement of the principal subsidiaries from a risk point of view is based on the transparency principle; i.e. the types of risk identified as material in the respective companies are integrated in the Group-wide risk measurement of the respective type of risk. LBBW shows companies whose risks are regarded as immaterial in investment risk.

The following material risk types were identified:

Risk types.

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.

Economic perspective (1st steering group).

To ensure adequate capitalization from an economic point of view, a Group-wide compilation of risks across all material risk types and subsidiaries, and the comparison of these with the capital calculated from an economic perspective (aggregate risk cover). This calculation of risk-bearing capacity (RBC) is carried out at a very high confidence level and with comprehensive classification of the definition of capital taking into consideration subordinated liabilities.

The internal monitoring of this key figure using binding targets and tolerance levels ensures LBBW Group has adequate economic capital both in times of normal business operations as well as under stress conditions.

At LBBW, aggregate risk cover (corresponds to risk coverage potential as per MaRisk) denotes the equity restricted according to economic criteria which is available to cover unexpected losses. In addition to equity (as per IFRS including revaluation reserves), subordinated debt and the realized income statement result in accordance with IFRS are considered components of aggregate risk cover. Extensive conservative deductible items are also included in aggregate risk cover due to regulatory requirements.

Economic capital is calculated as a uniform risk measure at the highest level. This is deemed to constitute the amount of capital necessary to cover the risk exposure resulting from LBBW's business activities. In contrast with the capital backing stipulated by regulatory bodies, it therefore represents the capital backing required from LBBW's point of view for economic purposes, which is calculated using its own risk models. It is quantified as value-at-risk (VaR) at a confidence level of 99.93% and a one-year holding period for counterparty, market price, real estate, development, investment and operational risks, and using simplified procedures for other risks.

By contrast, the liquidity risks (within the meaning of the risk of not meeting payment obligations) are managed and limited in accordance with the quantitative and procedural rules defined in the liquidity risk tolerance.

The model risks are managed entirely via the model risk management process and the corresponding tools, wherein the identification and classification of models via model inventory and the independent validation unit of Group Risk Control play a prominent role.

The upper risk limit for economic capital (economic capital limit) as part of the quantitative risk tolerance represents the Group-wide overarching limit for all relevant quantified risk types. This limit reflects the maximum willingness of the LBBW Group to accept risk. In keeping with the conservative principle underlying risk tolerance, it is substantially below the aggregate risk cover and thus provides scope for risks arising from unforeseeable stress situations, which are also limited (stress resistance). In addition, the economic capital limit is verified on the basis of target figures from the capital planning process. On the basis of the upper economic capital limit, economic capital limits are defined for the various directly quantified risk types and for the other risks not quantified within a model approach. The risk-bearing capacity is monitored by Group Risk Control by means of a traffic light system. The respective traffic light thresholds are linked to the recovery plan pursuant to the German Recovery and Resolution Act (SAG) and tied to an escalation process. Risks within the framework of the LBBW Group's risk-bearing capacity are described before possible measures to limit risks (so-called gross presentation).

Regulatory perspective (2nd steering group)

In addition to the economic, present-value perspective (1st steering group), LBBW's risk appetite and management concept also includes the so-called normative (regulatory) steering group. Current compliance with the internal targets (tolerance limits, which far exceed the regulatory minimum requirements) is ensured by means of an ongoing monitoring process on the one hand, while ensuring the long-term achievement or fulfillment of the corporates objectives within the scope of the capital planning process on the other. In addition, compliance with the internal targets also in case of adverse and stressed development is ensured by an analysis of planning and stress scenarios (stress resistance). Further details on this can be found in the Notes.

Stress tests.

In addition to risk measurement tools and statistical indicators based on historical data, stress scenarios play an important part in risk assessment. They analyze in advance the impact of possible future economic volatility and market crises in order to establish whether LBBW is able to withstand extreme situations.

Stress tests are therefore an integral part of LBBW's risk management. The stress scenarios are arranged in such a way that the effects of extraordinary but plausible events of different degrees of severity can be considered in terms of their impact on economic and regulatory capital and on the liquidity situation. For this purpose, various methods ranging from a simple sensitivity analysis to complex macroeconomic scenarios addressing multiple risk types are applied. So-called inverse stress testing is also conducted regularly to examine which scenarios could threaten the existence of the LBBW Group.

In order to ensure risk-bearing capacity and regulatory capital ratios even in a stress case, so-called MaRisk stress scenarios are defined for the various risk types. These stress scenarios are economically geared to different types of risk, whose definition focuses in particular on LBBW's risk concentrations. In addition to the analysis of the economic and regulatory capital in the status quo, the Group's resistance to stress is also monitored on the basis of these scenarios. These also form the basis of the recovery plan pursuant to SAG. Overshoots are monitored and escalated by Group Risk Control and Financial Controlling using the traffic light method.

LBBW Group – risk situation.

To sum up, it can be stated that the risk-bearing capacity of the LBBW Group was maintained without restriction during the entire 2017 financial year. The aggregate risk cover at year-end 2017 was increased further from the end of 2016. The capital base was strengthened by issuing new subordinated liabilities while reducing risk at the same time. At 41.9%, utilization of the aggregate risk cover was thus improved further compared to year-end 2016. Furthermore, stress test resistance was maintained throughout the entire financial year.

LBBW Group - risk-bearing capacity.

EUR million	31 Dec. 2017 Absolute[1]	Utilization	31 Dec. 2016 Absolute[1]	Utilization
Aggregate risk cover	16 495	42 %	16 206	44 %
Economic capital limit[2]	12 800	54 %	12 800	56 %
Correlated total economic capital	6 903		7 111	
of which:				
interrisk correlations	– 446		– 422	
counterparty risk	3 326		3 899	
market price risk	1 974		1 659	
investment risk	35		47	
operational risk	781		716	
development risk	102		61	
real estate risk	162		186	
other risks[3]	970		965	

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

The economic capital has declined by a total of EUR – 0.2 billion since year-end 2016. The decline in counterparty risk is largely as a result of changes in market data and portfolio changes. Market price risk is calculated as part of the risk-bearing capacity on the basis of the current amount at risk and the amount at risk calculated on the basis of long-term historical scenarios (including stress periods). Model adjustments within the scope of the annual model validation led to higher operational risk compared with the previous year.

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. This is particularly the case for market trends with a positive effect on earnings and capital figures (above all credit spreads) with lower allowances for losses on loans and advances due to the economic trend or with a better-than-expected business performance. Apart from market- and business-driven improvements, the ARC can be proactively strengthened by measures such as issuing subordinated capital.

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

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

Risk management processes and reporting.

Risk management and monitoring.

LBBW's risk management and monitoring is based on the guidelines of the risk strategy and the defined limits and approval powers.

At LBBW, transactions can only be entered into within clearly defined limits or approval powers and in accordance with the principles of the risk strategy. Within the defined framework, risk management decisions are made by the departments with portfolio responsibilities, maintaining the separation of functions; these decisions are monitored by central Group Risk Control. The risk control and risk management system set up for this purpose covers all material risks and the details specific to the risk types.

Potential concentration of risk receives particular attention. On the one hand, concentrations tend to arise as a result of the synchronization of risk positions within one risk type. On the other hand, they can also be produced as a result of common risk factors or interactions between various risk factors of different risk types. At LBBW, appropriate processes are used to identify and to deliberately manage risk concentration. Risks to the Group’s going concern status must be excluded. Differentiated monitoring processes (e.g. report on risk concentrations, stress tests) and limits (e.g. sector and country limits) are available for the purpose of monitoring this strategic requirement. Additional information on this is provided in the sections on the respective risk type.

An overview of the structure and individual elements of the risk management system of LBBW is given in the following chart:

Risk management structure.

Annual General Meeting
Supervisory Board
Committees

Group's Board of Managing Directors
Business strategy, Group risk strategy

Risk Committee, Asset Liability Committee, Regulatory / Accounting Committee

Authority based on decision-making hierarchy for loans and trading,
articles of association and internal regulations of the executive bodies and the Group’s Board of Managing Directors

Credit risk strategy

Counterparty default risks/ Country risks
- Front office departments
- Back office departments
  - Credit and risk management
  - Central loan processing
- Country Limit Committee
- Joint decision-making authority on lending (front office/back office)
- Group Risk Control
- Credit Committee

Market price risk, liquidity risk, operational risk strategy

Market price risks
Liquidity risks
- Treasury
- Financial Institutions & Markets
- Group Risk Control

Operational risks
- Group Risk Control in cooperation with all of the Group's divisions

Investment risk, real estate risk and development risk strategy

Investment risks
- Group investments

Real estate risks
- LBBW Immobilien Group
- BW-Immobilien GmbH

Development risks
- LBBW Immobilien Management GmbH

Other risks
- Business risks
- Reputation risks
- Pension risks
- Funding (spread) risks
- Model risks
- Dilution risks

Committees and reporting.

The members of the Group’s Board of Managing Directors with responsibility for managing risks are supported in their decision-making by corporate bodies and a comprehensive risk and subject-specific reporting system. The overall risk report and the report to the Asset Liability Committee (ALCo) thus form the reporting system relevant to risk within the context of the requirements of MaRisk.

The Risk Committee comprises the board members with responsibility for capital markets business and asset management/international business, finance/strategy and risk management/compliance and auditing, in addition to divisional managers from Group Risk Control, Group Strategy and Financial Controlling, Treasury and Back Office. As an advisory committee, it prepares decisions for the Board of Managing Directors and supports it in risk monitoring, risk methodology and risk strategy for the Group as a whole. The monthly overall risk report and other reports prepared on specific issues as required form the basis for this.

The ALCo also has an advisory role and works on preparing decisions for the Group's Board of Managing Directors. The focus of the Asset Liability Committee is on strategic resource management for the Group as a whole. It supports the Board of Managing Directors, among other things in structuring the balance sheet, managing capital and liquidity as well as in funding and managing market price risks. The committee comprises the board members with responsibility for capital markets business and Asset Management/International Business and Finance/Strategy, in addition to divisional managers from Group Strategy and Financial Controlling, as well as Treasury. Group Risk Control and Finance also participate in the meetings.

The coordinating Regulatory/Accounting Committee evaluates at an early stage the requirements of the large number of provisions of banking supervisory law and accounting that are relevant for management purposes and takes the measures required. The committee comprises, among other areas, the board members with responsibility for capital markets business and asset management/international business, risk management/compliance and auditing, in addition to divisional managers from the Legal division, Information Technology, Finance, Group Risk Control, Group Strategy and Financial Controlling and Treasury.

Processes of adjustment.

New types of trading and credit product at LBBW are subject to a New Product Process that ensures the product is included in LBBW's various systems, such as accounting or Group risk control. Any potential legal consequences are also outlined.

The main focus is on trading products. If it is not possible to fully integrate the products into the model immediately, a step-by-step approach is taken in which the products are initially traded only under very strict supervision.

In the case of material changes in the set-up and procedural organization and in the IT systems, LBBW analyzes the potential effects on control procedures and control intensity within the framework of a pre-defined standard process.

Process-independent monitoring.

The Group Auditing division is a process-independent division that monitors the operations and business work flows, risk management and control and the internal control system (ICS) with the aim of safeguarding LBBW's assets and boosting its operating performance. The Group Auditing division exercises its duties autonomously. The Board of Managing Directors is informed of the results of audits in written audit reports, which are discussed with the audited operating units. The Group Auditing division also monitors the measures taken in response to the audit findings.

The auditing activities of the Group Auditing division are generally based on an audit schedule, approved annually by the Board of Managing Directors, on the basis of a long-term risk-oriented plan, which records all the activities and processes of the LBBW Group, allowing for risk weighting in a reasonable period, but always within three years.

Regulatory developments.

Takeover of supervision by the European Central Bank (ECB).

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

One of the core tasks of the ECB is to carry out an independent evaluation and review of the capital and liquidity situation of the institutions. The central tool used here is the so-called Supervisory Review and Evaluation Process (SREP). In addition to workshops, data queries and requests for information on various focus areas, stress tests are also an important supervisory tool. An ECB stress test on interest rate risks in the banking book was carried out in 2017, as well as the annual Transparency Exercise, published on the EBA and LBBW homepage.

On 18 December 2017, the ECB also stated its supervisory priorities in 2018 for all banks. The key issues comprising the risks in connection with the banks' business models, profitability, credit risk (NPL and concentration risks) and risk management are largely unchanged. In addition, the issues of »Brexit« preparations, stress testing in 2018 and risks in relation to IT and cybercrime will be pursued, among other areas.

Development of CRD/CRR.

On 1 January 2014, the European implementation of the Basel III regulations came into effect via the CRD IV/CRR legislative package. In November 2016, the EU Commission presented proposals for revising the two sets of rules (CRR II/CRD V), which will be subject to negotiation as part of the trilogue between the EU Commission, EU Parliament and EU Council. Only the urgent cases were adopted in 2017 within the scope of the so-called fast-track process (including the transitional rules for the effects from the first-time application of IFRS 9). The revision aims to remove inconsistencies as well as implement international regulatory requirements. This includes guidelines for indebtedness, liquidity and liabilities. Furthermore, new trading book guidelines (»FRTB« – Fundamental review of the trading book), provisions for counterparty risk of derivatives (»SA-CRR – standardized approach for measuring counterparty credit risk exposures«) as well as interest rate risks in the banking book will be introduced. These can be described informally as forming part of the »Basel IV« reform package.

The CRD and CRR form the European framework for banks and financial services institutions. These must meet strict requirements concerning solvency, liquidity and special reporting obligations. CRD IV includes provisions on the authorization and supervision of banks and financial services institutions, fundamental rules on the banks' equity base, penalties in the event of breaches and rules on the institutions' corporate bodies and their supervision. The CRR governs the guidelines for the level of regulatory capital to be held, as well as for large exposures and liquidity requirements.

This regulatory framework has implications for business strategy, the strategic direction of the business units, management metrics and technical reporting capacity. The interdependencies between the regulatory framework and business strategy are analyzed constantly on an integrated basis and taken account of accordingly.

Finalizing Basel III (»Basel IV«).

Following protracted negotiations, the supervisors in the Basel Committee on Banking Supervision (BCBS) agreed in December 2017 on the last package of reforms (for now) to complete the Basel III framework (»Basel IV«). A key negotiation outcome was the agreement on the so-called output floor of 72.5% which is designed to limit the results generated by internal models in the regulatory capital requirements in future. At the same time, new or revised standards that are more sensitive to risk should be applied for calculating the risk weighted assets. These include new provisions for the approach to credit risk, the own funds requirements for CVA and operational risks. The new rules, which will, in the final analysis, impact on the denominator of the solvency and equity ratios, are expected to be phased in internationally over a five-year period from 2022 on. The standards still need to be transposed into European law prior to this.

LBBW participates regularly in the Basel impact studies, in order to quantify the RWAs and take them into account in the capital planning. Additionally, further steps will be initiated to anticipate the impact and develop potential, strategic options for action.

Risk types.[1]

Counterparty risk.

Definition.

The umbrella term counterparty risk describes the loss potential resulting from the fact that business partners may in future no longer be in a position to fulfill their contractually agreed payment obligations in full. A counterparty risk may occur both from direct contractual relationships (e.g. granting loans, buying a security) and indirectly, e.g. from hedging obligations (especially issuing guarantees, selling hedging via a credit derivative).

The main characteristics of this risk are defined and briefly explained below.

Credit risk.

Here the term credit risk, often used synonymously with counterparty risk, describes the counterparty risk from the lending operation, i.e. from granting loans and hedging lending by third parties (e.g. via guarantees).

Issuer risk.

The term issuer risk covers the counterparty risk resulting from securities. It covers both the direct securities portfolio and securities referenced via derivatives (especially via credit derivatives).

Counterparty credit risk.

Counterparty credit risk describes the counterparty risk from financial transactions (especially derivatives transactions), resulting from the fact that the contracting party (counterparty) is no longer in a position to meet their obligations. In this situation, on the one hand, the position that becomes open upon closing may entail costs (so-called replacement risk), while on the other there is a risk that advance payments have been made to the counterparty without the counterparty being able to provide the corresponding counter-performance (so-called advance payment, performance and/or settlement risk).

Country risk.

The term country risk designates the counterparty risk that arises because, due to critical political or economic developments in a country (or entire region), the transfer of foreign exchange is not possible or only possible to a limited extent.

Collateral risk.

Collateral risk is not direct counterparty risk, but describes the potential that collateral received to reduce the counterparty risk loses value, especially if this happens systematically (e.g. due to turmoil on real estate markets).

1 Information on correlated total economic capital for the individual risk types can be found in the section on the risk management systems/risk situation of the LBBW Group.

Counterparty risk management.

Management for limiting the counterparty risk is implemented as an integrated process at LBBW, and can be broken down into the three main components of risk measurement, risk monitoring as well as risk management:

Components of counterparty risk management.

Risk measurement	▪ Risk classification procedures (PD) ▪ Evaluating collateral (LGD) ▪ Exposure at default (EaD) ▪ Expected Losses (EL), Value adjustment and Credit Value Adjustment (CVA) ▪ Credit Value-at-Risk (CVaR) ▪ Early-warning system and stress tests

Risk monitoring and reporting	▪ Individual transaction level
	  ▪ Active risk management by back office departments
	  ▪ Early warning indicators
	  ▪ Intensive care of delinquent loans
	  ▪ Supervision of loans for restructuring and winding up by dedicated units of the Risk Management division
	▪ Portfolio level
	  ▪ Counterparty credit limits, country and sector limits
	  ▪ Regular reports
	  ▪ Ad-hoc information on risk situation

Risk management	▪ Individual transaction level
	  ▪ Guidelines of the credit risk strategy
	  ▪ Pricing in line with risk and equity
	▪ Sub-portfolio level
	  ▪ Measures to observe various portfolio limits
	  ▪ Targets for credit risk strategy
	▪ Total portfolio level
	  ▪ Allocation of economic capital to the sectors

Risk measurement.

In order to measure risk, LBBW uses an extensive range of instruments involving quantitative measuring procedures. These are subject to ongoing quality control and undergo permanent development.

Risk classification procedures.

LBBW uses specific rating and risk classification procedures for all relevant business activities. These procedures quantify the probability of default (PD) of the individual investments. For this purpose, the counterparty risk is calculated both including and excluding the transfer risk.

The quality of the risk classification procedures in use is reviewed regularly and the procedures are refined if necessary. These procedures are maintained and updated by LBBW on its own initiative or in cooperation with Rating Service Unit GmbH & Co. KG (an associated company of the

Landesbanken) or Sparkassen Rating und Risikosysteme GmbH (a subsidiary of Deutscher Sparkassen- und Giroverband - DSGV).

Most of the portfolio is valued using internal rating procedures which have been approved for the Internal Ratings Based Approach (IRBA) by the banking supervisor. The rating grades are therefore not only used for internal management purposes but also to measure the regulatory capital requirements.

Evaluating collateral.

Collateral is evaluated on the basis of its market value, which is reviewed regularly and on an ad hoc basis and adjusted in the event of any change in the relevant factors. Loss given default (LGD) is estimated on the basis of the valuation of the individual items of collateral. In this respect, differentiated estimates are calculated for liquidation rates (average proceeds expected from the liquidation of collateral) and for recovery rates (proportion of the proceeds from the unsecured portion of a receivable). The estimates are based on empirical values and pool data recorded by the Bank itself and in cooperation with savings banks and other Landesbanken.

Exposure at default.

Whereas exposure is tied to a specific date (exposure at default, EaD) for reporting purposes, and potential future exposure is calculated to determine the CVaR and the utilization of internal limits, e.g. with derivatives. This is calculated for the most part on the basis of fair values and the corresponding add-ons. The add-on calculation takes account of the remaining maturity, product type and market factors (interest, currency etc.). Netting and collateral agreements are used for reducing risk. The capital charges for issuer risks held in the trading book take account of the settlement payments and actual fair value losses as a result of default (jump-to-default method). The (modified) nominals are used for issuer and reference debtor risks from securities and holdings in the banking book.

Expected losses, value adjustments and credit value adjustment.

The expected loss (EL) – as an indicator that depends on customer creditworthiness, an estimation of the loss at default and the expected exposure at default – provides the basis for the level of the standard risk costs. In preliminary costing at the individual transaction level, these are included in the calculation of risk-adequate loan terms. The concept of the expected loss is also resorted to in connection with the calculation of impairments. When calculating general allowances for losses on loans and advances, the incurred loss that has not yet been recognized because of delays in information is estimated on the basis of the EL. In the case of specific loan loss provisions (SLLP), the present values of the expected cash flows (including proceeds from the liquidation of collateral) are calculated and allowances for losses on loans and advances are made on the basis of uniform standards applied throughout the Group.

Please refer to the explanations under Note 2 (»Changes and estimates«) with regard to the activities involved in the transition to the new loss impairment model in accordance with IFRS 9, which is based on the concept of expected loss.

The market price of the counterparty risk of OTC derivatives accounted for at fair value is measured using the so-called credit value adjustment (CVA). This is included in the income statement of LBBW as a valuation adjustment. The credit ratings of the counterparty and of LBBW are taken into consideration.

Credit value-at-risk.

At LBBW, unexpected loss or credit value-at-risk (CVaR) represents the potential present value loss of a portfolio above its expected loss. A credit portfolio model that takes the defaults as well as rating migration into account is used to calculate this value. The borrowers are assigned corresponding default and migration probabilities, on the basis of their ratings. The CVaR is calculated using a Monte Carlo simulation approach and takes into consideration correlations between borrowers as well as borrower, sector and country concentrations. LBBW's loan portfolio model is subjected continuously to a validation program that is independent of the model development.

CVaR is used as the parameter for economic capital used for counterparty risks in the risk-bearing capacity analysis and in LBBW’s management. CVaR and economic capital are defined using an adequate confidence level and time horizon of one year.

Risk concentration and stress tests.

Risk concentration is measured using the CVaR, among other things. Group Risk Control proposes concentration risk thresholds for individual borrowers as well as at sector level; these are set by the Board of Managing Directors. The thresholds are reviewed annually and adjusted if necessary, depending on the development of the loan portfolio and the risk-bearing capacity.

In addition, extensive stress scenarios – particularly in the light of possible concentration risks – are calculated at LBBW Group level to analyze possible changes in LBBW's portfolio or specific rating procedures arising from potential developments (e.g. sector crises) or the market environment. Counterparty risks are included in scenarios covering multiple risk types.

Risk monitoring and reporting.

Individual transaction level.

Risk management at the level of individual exposures is the duty of the back office divisions. These are organized separately from the front office divisions, in line with the regulatory requirements. Clear responsibilities and appropriate experience and expertise are ensured in the back office divisions by a customer or sector-specific organizational structure. Credit decisions are made in a system of graded competencies, which are regulated in the Bank's decision-making systems.

As part of risk monitoring, the risk managers responsible continuously check compliance with the limits granted as well as any changes in information of relevance for credit ratings. This includes monitoring any irregularities in account behavior, evaluating company news and observing macroeconomic and sector trends. In cases in which market data can be observed for a given company, a market data-based system is additionally used according to requirements.

A system is in place for the early detection of risks, comprising procedural regulations and system-generated signals, whose goal it is to detect any deterioration in credit ratings at an early stage.

The early detection of any deterioration in credit ratings allows appropriate countermeasures, e.g. additional collateral or pre-emptive restructuring, to be taken in consultation with the customer.

Depending on the level of risk, problem assets are classified as cases requiring intensified support, restructuring or liquidation and are dealt with by the departments responsible. LBBW aims to minimize losses through successful restructuring activities, in line with the Bank's own interests and those of its customers.

Portfolio level.

Counterparty risk is monitored at the portfolio level in the Group Risk Control division, which, from an organizational point of view, is separate from the front and operational back office divisions. This division is responsible for ensuring the suitability of rating procedures, measuring counterparty risk, monitoring counterparty credit, country and sector limits and drawing up risk reports.

The respective utilization of the exposure and CVaR limits set is shown in the monthly overall risk report, among other things.

- Compliance with country limits is monitored on a daily basis with a special limit system.
- The portfolio of financials has an overall limit.
- Sector risks arising from the corporates portfolio are restricted and monitored through the stipulation of sector-specific limits. The limit system is based on a risk-oriented sector key designed specifically for this purpose, which combines sector segments that have a high loss dependence along the value chain. For example, mechanical engineering companies whose products are sold predominantly to customers from the automotive industry are also assigned to the automotive industry.

An ad hoc reporting process is implemented for significant and extraordinary events for specific reporting to the decision-makers in charge. The most important periodic reports are as follows:

- The overall risk report presented monthly in the Risk Committee, which includes details about the risk situation at the portfolio level and compliance with the material limits. Portfolio analyses additionally report on the risk situation of individual sectors and risk concentrations, for example.
- The comprehensive credit risk report, submitted on a quarterly basis as an appendix to the overall risk report. This contains additional detailed information on the development of allowances for losses on loans and advances, compliance with the parameters of the credit risk strategy, rating distributions, size classes, product types, remaining maturities, new business, and risk concentration arising from individual commitments.
- The half-yearly in-depth sector report with detailed information on the sector situation, portfolio structure and important customers in each sector.

Risk management.

Counterparty risks are managed, in particular, through the requirements of the credit risk strategy, through the economic capital allocation to sub-portfolios with the aid of the CVaR, and by avoiding and reducing concentration risks at the level of sectors, countries and individual counterparties.

Individual transaction level.

As a rule, the upper limits on the individual transaction level are set individually by the respective authorized person responsible for the front office or back office divisions. This upper limit is taken into account for all risk-relevant transactions by a customer or borrower unit or group of connected clients. A material part of managing individual transactions involves monitoring compliance with the quantitative and qualitative requirements defined in the credit risk strategy. This determines the underlying terms and conditions for LBBW's lending business on the basis of the business strategy and in the light of the Group risk strategy. Particular attention is paid to avoiding concentration risks.

From an economic point of view, the question of whether a transaction will produce an adequate profit on a risk-adjusted basis is a key consideration before entering into business; for this reason, preliminary costing of all individual transactions is compulsory. In addition to the historical interest rate and the bank levy, the components in the preliminary costing comprise cover for expected loss (risk range), interest on equity to be held in case of unexpected losses (capital range) and cover for liquidity and processing costs. The results form the basis of business management at customer level.

Sub-portfolio level.

The risk management measures differ depending on the respective sub-portfolio level:

- Country limits are determined by the Board of Managing Directors, based on the proposals of the Country Limit Committee. If the country limit is almost fully utilized, the affected front and risk management units are notified and if the limit is exceeded a ban on business is imposed. If country credit ratings deteriorate, limits are reduced and/or suspended. Wind-down targets also exist for countries that are the focus of particular attention.
- The limitation on the portfolios of financial institutions and corporates sectors triggers controlling measures such as hedging transactions to reduce risk or a ban on new business etc. if certain thresholds are exceeded.
- At the business area or sub-business area level, risks are limited through measures to ensure adherence to the portfolio guidelines of the credit risk strategy with regard to upper limits, rating structures and the portfolio quality, among others.

Total portfolio level.

In the management of the Group's credit portfolio, the limit in particular for the economic capital for counterparty risks based on the CVaR is allocated to the sectors. A traffic light system recognizes at an early stage if limits are close to being fully utilized and corresponding measures are initiated. In addition, the results of the stress tests provide indications of potentially dangerous risk constellations, which may require measures to be taken.

Risk situation of the LBBW Group.

Preliminary note.

The quantitative information on the risk situation is based on the management approach. LBBW's risk situation is therefore reported on the basis of the figures used for the purpose of conducting internal risk management and reporting to the Board of Managing Directors and the corporate bodies. The management approach differs partially from balance sheet reporting. This can be put down to the presentation from risk aspects and deviations from the companies included for accounting purposes according to IFRS. In internal risk management the SüdLeasing Group is included as consolidated subsidiary.

The differences between the figures used for internal risk management on the one hand and external accounting on the other can be quantified as follows:

Reconciliation of accounting approach to management approach.

EUR million		Reconciliation			
31 Dec. 2017	Carrying amount	Basis of consolidation	Measurement	Other	Management approach
Cash and cash equivalents	22 729	-7	-16 604	0	6 118
Trading assets	28 698	298	29 004	16	58 015
Financial assets designated at fair value	732	-2	-101	0	629
Positive fair values from hedging derivatives	1 956	0	2 240	0	4 196
Financial investments (AfS)	21 185	1 401	-632	0	21 954
Receivables	156 515	-4 354	10 937	-753	162 345
Financial investments (LaR)	1 663	-5	0	0	1 657
Non-current assets and disposal groups held for sale	104	-104	0	0	0

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

Exposure to counterparty risks in 2017 was always in accordance with the risk-bearing capacity of the LBBW Group.

Development of exposure.

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

Development of exposure.

EUR million	31 Dec. 2017	31 Dec. 2016
Gross exposure	**307 309**	**324 667**
Netting/collateral	77 368	86 808
Credit derivatives (protection buy)	7 828	11 111
Classic credit collateral	40 487	44 252
Net exposure	**181 625**	**182 496**

As at the reporting date, gross exposure amounts to EUR 307 billion and is therefore EUR 17 billion or 5% lower than at the end of 2016. The change is, on the one hand, largely owing to the sale of Sealink Portfolio by the manager[1], which is virtually completed and to the market development of interest rate derivatives on the other. Because of the simultaneous decline in the risk-mitigating effects from netting and collateral agreements, and a decline in credit derivatives (protection buy) and classic loan collateral, the decline does not fully feed through to net exposure. Net exposure fell by around EUR 1 billion or 1% to EUR 182 billion.

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

Portfolio quality.

Presenting the portfolio by internal rating class depicts how the portfolio quality has developed compared to 31 December 2016.

Portfolio quality.

Net exposure	EUR million 31 Dec. 2017	in % 31 Dec. 2017	EUR million 31 Dec. 2016	in % 31 Dec. 2016
1(AAAA)	33 780	18.6%	41 196	22.6%
1(AAA) – 1(A–)	87 524	48.2%	80 517	44.1%
2 – 5	43 962	24.2%	43 443	23.8%
6 – 8	9 804	5.4%	10 244	5.6%
9 – 10	2 604	1.4%	2 702	1.5%
11 – 15	1 041	0.6%	1 202	0.7%
16 – 18 (default)[1]	908	0.5%	1 181	0.6%
Other	2 003	1.1%	2 011	1.1%
Total	**181 625**	**100.0%**	**182 496**	**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 exposure is presented before allowances for losses on loans and advances/impairments.

The quality of LBBW Group's portfolio is good and has improved marginally from 31 December 2016. The share of investment grade ratings (ratings 1 (AAAA) to 5) increased slightly to 91.0% (31 December 2016: 90.5%). Rating class 1 (AAAA) primarily includes German non-central public-sector entities. The virtually completed sale of the Sealink portfolio reduced the share in the top rating class. However, this is offset by the higher net exposure in the rating clusters 1(AAA) – 1(A-) and 2 – 5. The increase is based on new business and rating upgrades. The net exposure in the rating classes 6 – 15 (non-investment grade) is also slightly lower. The portfolio share is 7.4% (previous year: 7.8%). The non-performing exposure was also reduced again slightly to 0.5% of the total portfolio in line with the trend of the previous years.

Sectors.

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

1 Please refer also to Results of operations, net assets and financial position for further details about the Sealink portfolio.

Sectors.

EUR million	Net exposure 31 Dec. 2017	CVaR 31 Dec. 2017	Default 31 Dec. 2017	Net exposure 31 Dec. 2016	CVaR 31 Dec. 2016	Default 31 Dec. 2016
Financials	**73 240**	**790**	**20**	**73 769**	**1 045**	**34**
of which transactions under specific state liability[1]	12 347	21	0	13 445	17	0
Companies	**69 456**	**1 546**	**713**	**61 711**	**1 670**	**830**
Automotive	12 718	368	100	11 411	411	88
Chemicals and pharmaceuticals	6 260	127	9	5 627	114	28
Retail and consumer goods	11 345	198	127	9 095	218	114
Industry and construction	17 754	390	160	15 311	377	261
of which construction	6 679	175	56	5 809	165	117
Telecommunications and media	3 574	64	56	3 187	69	63
Transport and logistics	3 830	93	16	4 252	112	40
Utilities and energy	9 645	214	179	8 888	278	167
of which utilities and disposal companies	3 985	87	38	3 632	115	5
of which renewable energies	2 993	78	84	2 681	89	108
Other	4 332	92	65	3 941	92	68
Real estate	**8 870**	**323**	**117**	**9 677**	**406**	**247**
Commercial real estate (CRE)	6 163	271	95	6 354	304	216
Housing industry	2 707	53	23	3 323	102	31
Public sector	25 199	314	0	32 477	366	0
Private individuals	**4 861**	**104**	**58**	**4 862**	**127**	**69**
Total	**181 625**	**3 078**	**908**	**182 496**	**3 614**	**1 181**

1 This figure shows transactions with statutory guarantee (»Gewährträgerhaftung«) and transactions that were covered in the previous year by a guarantee provided by the State of Baden-Württemberg under the risk shield (Sealink). It also includes central banks and banks with a state background.

Financials represent the largest of the five main sectors with net exposure of EUR 73 billion as at the reporting date. The slight decline of close to EUR 1 billion compared with the end of 2016 is due in particular to the sale of the Sealink portfolio by the manager, which is virtually completed. This is also associated with a decline in transactions under specific state liability. The decline in the CVaR resulted from rating upgrades of some important counterparties, among other things.

In the corporates portfolio, the industry and construction, retail and consumer goods, and automotive in particular contributed to the EUR 8 billion increase in exposure to EUR 69 billion. As in the previous year, the automotive sector 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 sector concentrations. Besides the analyses 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 evaluated. The decline in the CVaR despite the higher exposure is due to market data effects (e.g. from changes in interest rates and exchange rates and the reduction in sectoral correlations) as well as rating upgrades of some key customers.

Besides the automotive sector, commercial real estate is one of the most important sectors in the portfolio. Having diversified in our strategic locations, we see no excessive concentration risk in this portfolio in terms of concentration aspects. At around EUR 9 billion, net exposure in the main real estate sector is down slightly on the previous year. The default share in this portfolio, which is already low, was reduced significantly especially through the sale of receivables. The disproportionate decline in the CVaR is due to interest rate and currency effects, among other things.

Net exposure to the public sector was reduced greatly compared with the end of 2016, by EUR 7 billion to EUR 25 billion. The decline is also related to the sale of the Sealink portfolio by the manager, which is virtually completed. Thanks to the very good high credit ratings, this had no appreciable effect on the CVaR. With regard to foreign public-sector entities, declines were also recorded in net exposure and CVaR.

In the case of private individuals, net exposure and CVaR are unchanged from the previous year's level. This portfolio has a particularly high level of granularity.

Regions.

The share of German business in the net exposure amounted to 70.9%. The general breakdown by region is largely constant, despite smaller regional shifts at the reporting date. The focus on the stable and low-risk core markets in private, SME and large customer business, and the function as a central bank for the savings banks, will continue to secure a dominant German share in the future.

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

Regions.

Net exposure in %	Share 31 Dec. 2017	Share 31 Dec. 2016
Germany	70.9%	69.1%
Western Europe (excluding Germany)	17.9%	19.0%
North America	6.2%	7.4%
Asia/Pacific	2.3%	1.4%
Eastern Europe	0.7%	0.8%
Latin America	0.6%	0.7%
Africa	0.1%	0.0%
Other[1]	1.2%	1.5%
Total	**100.0%**	**100.0%**

1 Transactions not allocated to a particular country (e.g. transactions with supranational institutions) are summarized under »Other«.

Order was largely restored during 2017 following the political turmoil of the previous year. After triggering Article 50 of the Lisbon Treaty on 29 March 2017, which commenced the formal process for the UK to withdraw from the European Union, progress was made in the negotiations between the British government and the EU. In the presidential and general elections in France in spring 2017, the pro-European political center secured the majority necessary for the reforms and the US system of »checks and balances« restricted the momentous reform plans of the new US President Trump. Having returned to growth, all major economies recorded an even brighter performance in 2017. This meant that the signs of overheating had to addressed again nearly one decade after the global financial crisis.

In light of the UK's exit from the EU, potential weak points were and will be identified and alternative courses of action drawn up. LBBW has analyzed the potential effects of the exit and currently concludes they will be easily managed.

Although the key emerging markets are also enjoying an economic recovery, some economies including the BRICS states still remain vulnerable to internal and external shocks, so that product and limit restrictions as well as very close monitoring of the most important benchmark data for international solvency remain in place. The development of Turkey's foreign trade came under particular scrutiny in 2017.

Size classes.

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

Size classes.

Net exposure	Number 31 Dec. 2017	Net exposure in % 31 Dec. 2017	Number 31 Dec. 2016	Net exposure in % 31 Dec. 2016
up to EUR 10 million	730 149	11.9%	761 364	12.0%
up to EUR 50 million	1 144	14.1%	1 140	13.9%
up to EUR 100 million	245	9.8%	219	8.8%
up to EUR 500 million	291	35.7%	268	33.1%
up to EUR 1 billion	40	15.7%	36	14.2%
over EUR 1 billion	13	12.9%	14	18.0%
Total	**731 882**	**100.0%**	**763 041**	**100.0%**

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

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

The number of commitments with a net exposure of over EUR 1 billion decreased on balance from 14 to 13 names compared with the previous year, causing the share in the portfolio to fall by around five percentage points to 13%. The decline affects the public sector and financials in particular. As at the reporting date of 31 December 2017, public-sector entities (particularly German local authorities), financials and corporates had close to equal representation in this size class. These are counterparties with exclusively very good to good ratings (minimum rating class 1 (A-) and one with rating class 5). The large exposures will continue to be monitored closely in the interest of managing cluster risks.

Opportunities.

LBBW's risk-bearing capacity and strong capital situation facilitate growth without jeopardizing the risk 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 the pricing. Selecting transactions with a favorable risk/return ratio offers special opportunities for profit. Furthermore, a positive trend above expectations in the economic situation in the core markets may offer an opportunity to improve the quality of the portfolio, thus resulting in persistently low write-down requirements. Business potential and higher margins could be achieved from process optimization, less intense competition on the German banking market and an attractive interest rate environment.

With the four strategic thrusts of business focus, digitalization, sustainability and agility, LBBW believes it is well-positioned in what is a challenging market environment; business focus is aiming for growth by expanding the existing strong customer base, e.g. by growing the loan portfolio in new focus sectors (e.g. pharma, healthcare) while optimizing the portfolio diversification at the same time. The opportunities presented by digitalization are being pursued: on the one hand, central customer business processes are being digitalized and innovative products and solutions offered. On the other hand, it is necessary to achieve faster and leaner internal processes through process digitalization and modernizing the IT landscape. LBBW is one of the pioneers in Germany in placing promissory notes using blockchain technology. Above-average growth is also expected in sustainable products and services, an area in which the bank wants to become increasingly involved. Supporting the future challenges of our customers while moving toward sustainable business models and adjusting the lending policy with regard to sustainability and risk criteria are central components of the sustainability efforts. LBBW has already seized the first opportunities by issuing its own green bonds and acting as joint bookrunner. Support comes from incorporating the agility aspects within LBBW; the focus is on quick and unbureaucratic decision-making channels, stronger orientation to customers and solutions and autonomous, interdisciplinary action.

Market price risks.

Definition.

LBBW defines market price risks as potential losses resulting from unfavorable changes in market prices or factors influencing prices. Market price risks are broken down into the categories equities, interest rates and currency/commodities.

The following characteristics of market price risks arise as a result of the nature of LBBW's business activities.

Equity risk.

The equity risk results from changes in share and/or index prices as well as from share or index volatilities.

Interest rate risk.

The interest rate risk is based on changes in market interest rates, interest spreads, credit spreads or interest rate volatility. This also includes interest rate risks in the banking book (IRRBB).

Currency/commodity risk.

Currency/commodity risks are summarized and reported under the FX risk type in the LBBW Group. The currency risk relates to the development of exchange rates. The commodity risk relates to changes in the price of precious metals and commodities.

Market price risk management.

Risk measurement	▪ Internal risk model approved by the regulatory authority ▪ Daily value-at-risk measurement ▪ Stress tests, calculation of stress VaR, backtesting analysis ▪ Sensitivities ▪ Monitoring of risk concentration
Risk monitoring and reporting	▪ Monitoring and observance of the limits by persons who are responsible for the portfolios in Group Risk Control ▪ Daily, weekly and monthly reporting
Risk management	▪ Specifications on the basis of market price risk strategy and portfolio descriptions ▪ VaR limit down to portfolio level ▪ Loss limit per portfolio via a loss-warning trigger ▪ Limiting of sensitivities

Risk measurement.

Risk model.

In the financial sector, the market risk of the trading and banking portfolio is represented by value-at-risk forecasts. This value-at-risk (VaR) can be determined as part of a stochastic-mathematical model. This model derives a distribution of portfolio values from a distribution of market factors, the valuation based on and, if necessary, corresponding simplifications. The VaR is determined from this as the maximum potential loss at a given confidence level.

LBBW is using an in-house model based on a classic Monte Carlo simulation. In this simulation, market-induced fluctuations in the value of complex transactions are partially approximated. In addition, historical time series for the last 250 days are weighted equally in the estimation of the covariance matrix estimate. Backtesting analyses are used to ensure the quality of the applied VaR estimation procedures.

The risk model is used for general interest rate and equity risks to determine the regulatory capital requirements for market risks of the trading book[1]. The overall risk is included in determining the economic capital.

LBBW calculates the value-at-risk (VaR) from market price risks at a confidence level of 99% and a holding period of ten days for regulatory purposes while a 95% confidence level and a one-day holding period are applied for internal bank management purposes. In order to map this within the framework of risk-bearing capacity, the maximum of standard VaR (covariance matrix over 250 trading days) and long-term VaR are scaled to an adjusted level to meet the requirements of economic capital in terms of confidence level and holding period. The long-term VaR is based on two observation periods of five years each, which include crisis periods and more volatile market phases as well. This enhances the resilience of the calculated economic capital against crises.

Trading portfolios and the strategic interest rate position of the banking book can be affected by potentially detrimental developments in market interest rates.

LBBW identifies credit spread risk as a significant part of the market price risk. The transactions of the trading book and the banking book that are sensitive to creditworthiness are mapped onto rating- and sector-dependent yield curves. In this way, general credit spread risks from bonds and promissory note loans are also measured. In addition, the issuer-specific risk for securities is calculated using the spread of individual counterparties. Reference borrowers are allocated to CDS sector curves for credit spread risks from credit derivatives.

The calculations of VaR and sensitivities are completed with separate stress scenarios for the trading and the banking book on a weekly basis. Stress testing is used to examine how the value of the portfolio changes under extreme market conditions. LBBW uses both self-defined e.g. synthetic as well as historical market movements with a focus on altering specific movement of market price data i.e. curve trend or spread changes. Synthetic scenarios are based mostly on selected market factor groups, such as individual and combined interest rate or credit spread shifts. Historical scenarios were generated from the data analyses of market shocks. All scenarios serve the purpose of modeling extreme events on the financial markets that are not specifically included in VaR as a history-based

1 Trading book excluding funds that cannot be represented transparently.

indicator. The results, including for example the 200 basis point interest rate shock as part of the IRRBB regulations, are reported to the decision-makers and taken into account both on a portfolio basis and with regard to their impact on the Group as a whole. These changes in value from the stress simulation are also integrated in the stress scenarios for multiple risk types and are therefore relevant for risk-bearing capacity.

In order to calculate the StressVaR, instead of the last 250 trading days, a period of observation is assumed that covers a significant stress period. The StressVaR is calculated on a weekly basis using the relevant observation period for the trading book portfolio required for the regulatory report. A second calculation simulates the increase in risk under stress during the relevant period for the Group. This figure is also integrated in the MaRisk stress scenarios for multiple risk types and is therefore relevant for the stress resistance. The relevant observation period is determined on a quarterly basis for the portfolio of relevance for CRR as well as for the Group.

Risk concentration is monitored on a monthly basis using sensitivity analyses and VaR observations. Concentration risk is categorized to the type of risk (e.g. swap or credit spread risk), issuer groups (e.g. sovereigns, financials), individual issuers and interest rate or currency risk.

New products and further development of the risk model.

The risk model was improved significantly in the course of 2017. To start with, the parameterization of equity volatility was converted to a new methodology in April, thus optimizing the momentum of equity and index options that are modeled in the risk model. The interest rate risk model was fine-tuned in July through the introduction of tenor-specific forward curves and collateralization-dependent discount curves. At the same time, the credit spread risk was extended to include loans to counterparties eligible to tap the capital market.

Validation of the risk model.

LBBW's market risk model is subject to an extensive validation program, in which the potential model risks are identified in the stochastics of the market factors (including distribution model, risk factor selection and mapping), in the implemented valuation procedures and in the relevant market data, and are measured in terms of their materiality using tailor-made validation analyses. The validation analyses are conducted within the Risk Control division by the risk model validation group, which is organizationally independent from the model development. The validation analyses are guided by the materiality of the model risks and performed at regular intervals (at least once a year) and on an ad hoc basis in the event of material structural changes occurring in the model design, on the market or in the portfolio composition.

Particular importance is attached to the backtesting analysis within the validation program. This statistical backward comparison of the actual changes to the portfolio not only focuses on the VaR forecast using a binomial test, but is also based on the entire distribution forecast. According to regulatory requirements, it is based on the one hand on changes in portfolio value excluding new business and intraday trades, net interest income and commissions and fees (so-called Clean P/L) and on the other on changes in portfolio value excluding commissions and fees (so-called Dirty P/L), which are derived directly from the economic P/L.

If the backtesting or validation analyses indicate material model risks, they are made transparent to all parties integrated in the market risk management process (model developers, model users (operational market risk controlling) and recipients of the model results (Risk Committee, Trading)) so that necessary model optimization measures can be iniciated efficiently. Model optimization measures are carried out according to the model change policy and communicated to the regulatory authorities.

Risk monitoring and reporting.

The utilization of limits and compliance with the detailed risk strategy defined in the portfolio descriptions, are monitored by the relevant persons in Group Risk Control and reported to the Group's Board of Managing Directors. Reporting comprises specifically:

- Daily report with overview of the P&L and risk development.
- Weekly stress test report comprising the effects of the stress scenarios.
- Overall risk report that is prepared monthly and contains detailed information about P&L and risk development, StressVaR, risk concentration, economic capital and monitoring of the economic capital limit.

Risk management.

The fundamental management aim of the front office divisions is to generate IFRS earnings. This aim is defined in detail by way of a comprehensive set of financial ratios, which are set by the Board of Managing Directors in the medium-term planning. They are broken down by business areas and form the basis for the reporting.

The market price risk strategy documents the strategic framework in the LBBW Group and is derived from the business strategy and the Group risk strategy. The Group risk strategy contains overarching requirements for taking on market price risks, which are set out in the risk-taking principles. The requirements for active management of the material LBBW portfolios are documented in the portfolio descriptions, following from the market price risk strategy.

The Board of Managing Directors caps quantitative market price risk management in the LBBW Group by fixing the limit for economic capital for market price risks within the framework of risk-bearing-capacity. The loss-warning trigger acts as an indicator for losses of market value in the economic P&L and thus also entails a reduction of the aggregate risk bearing capacity. The loss-warning triggers at divisional and/or segment level are fixed by the Board of Managing Directors at least once a year taking into account the risk tolerance. Distribution among the portfolios below this level is effected by the authorized person responsible.

The relevant VaR amount is calculated for strategic management and monthly inclusion in the economic capital limit in the strategic limit system. If it is not possible to completely quantify the material risks, appropriate cushions or reserves are formed.

Differentiated VaR portfolio limits are connected with the economic capital limit. These limits plus the loss warning triggers and the sub-strategies together compose the risk taking guidelines for the divisions, departments and groups of Kapitalmarktgeschäft and Asset Management/International Business, Corporate Customers as well as the subsidiaries. The persons responsible for managing market price risks in the LBBW Group are defined via the escalation policy.

Operational management (intraday and end of day) in LBBW's trading books is conducted using sensitivity limits. The end-of-day portfolio limits monitored by Group Risk Control are to be observed. Furthermore, various special limits and restrictions, e.g. from the New Product Process, have been approved. These are monitored by Group Risk Control and if necessary escalated to the Risk Committee or the Board of Managing Directors.

For detailed risk management internal transactions are completed between the trading units, which are included in the calculations of market price risk.

Risk situation of the LBBW Group.

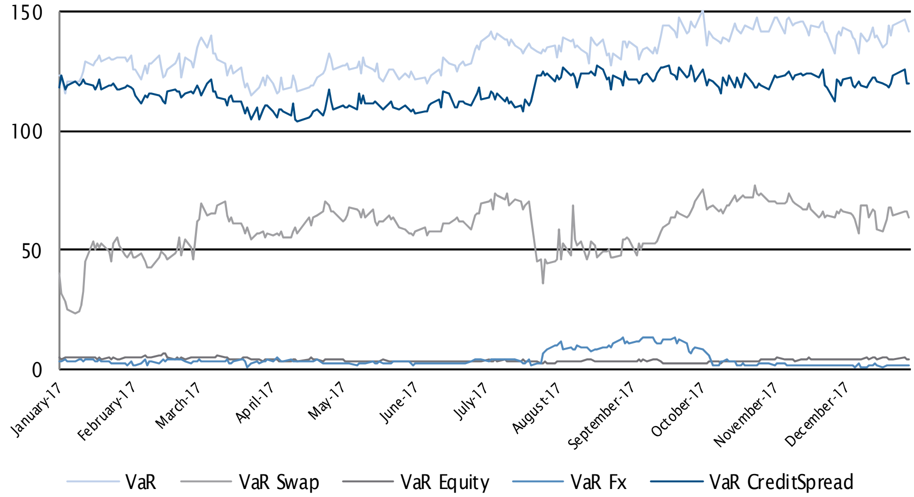
Development of market price risks.

Exposure to market price risks in 2017 was always in accordance with the risk-bearing capacity of the LBBW Group. The risk limit was not exceeded in 2017 for the individual Group units either. The loss warning trigger was not breached for LBBW Group, the banking and the trading book in 2017.

LBBW's market price risks are generally characterized by interest rate and credit spread risks. Here, the overall risk is dominated by the positions in the banking book, which result mainly from treasury activities. The basis risks in interest between individual European sovereign or financial curves and the swap curve, as well as the exposure to credit spreads from fixed-income securities, play a decisive part in the overall risk. Equity risks, along with currency and commodity risks, are less significant for LBBW than interest rate and spread risks. Commodity risks also include risks from precious metals and notes and coins portfolios, which LBBW holds to only a limited degree.

The following chart illustrates LBBW Group's market price risks over the course of the year.

Development of the LBBW Group risk in EUR million (99%/10 days).



VaR 99%/10 days.

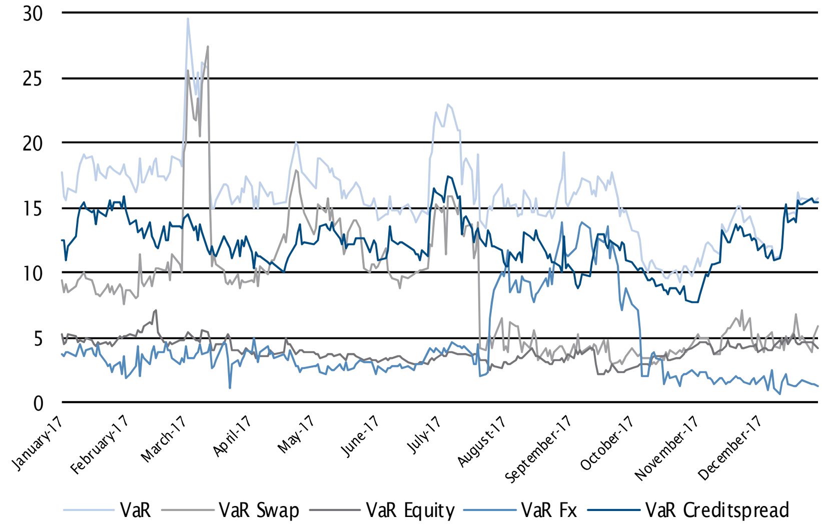
EUR million	Average	Maximum	Minimum	31 Dec. 2017[1]	31 Dec. 2016
LBBW Group	**133**	**151**	**115**	**142**	**131**
Swap risk	59	77	23	64	53
Credit spread risk	117	128	104	120	120
Equity risks	4	7	2	4	6
Currency risks[2]	4	14	1	1	3

1 The last reporting date in the 2017 financial year was 29 December 2017.
2 Including commodity risks.

The VaR of the LBBW Group increased in 2017. The rise from mid-2017 on was due to a conversion of the liquidity management in Treasury and a position increase in interest rate derivatives with a long term. LBBW's risk model was altered in 2017 (please refer also to the chapter New products and further development of the risk model), which led to significant changes in the VaR for credit spread and swap risks.

For the trading book the VaR developed as follows in 2017:

Development of the trading book risk in EUR million (99%/10 days).



VaR 99%/10 days.

EUR million	Average	Maximum	Minimum	31 Dec. 2017[1]	31 Dec. 2016
LBBW (Bank) trading book	**16**	**30**	**9**	**16**	**17**
Swap risk	9	27	3	6	10
Credit spread risk	12	17	8	15	13
Equity risks	4	7	2	4	6
Currency risks[2]	4	14	1	1	3

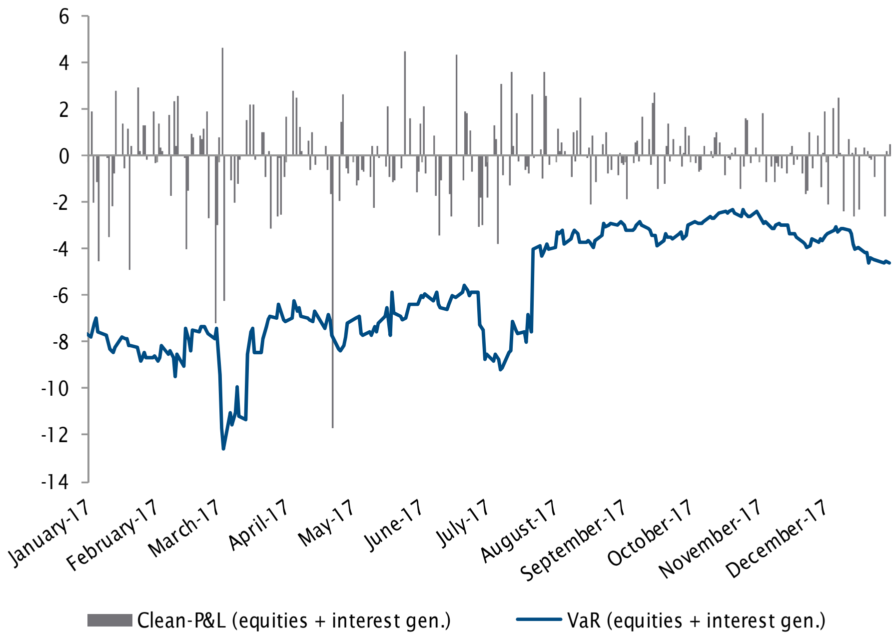
1 The last reporting date in the 2017 financial year was 29 December 2016.
2 Including commodity risks.

The LBBW trading book includes the positions of the segment Financial Markets and of Treasury, which are used for short-term interest rate and liquidity management. All in all, trading book risk is at a low level and also fell slightly in 2017 thus continuing the trend of recent years. The chart shows a temporarily increased risk value in the VaR and swap VaR in March 2017 due to sharp changes in interest rates and the resulting strong fluctuation in the fair values of interest rate derivatives. The risk returned to its original level after positions expired or were exercised. The risk rose temporarily at the end of June 2017 due to a position built up in bond future options. Risk volatility in July is attributable to changes to the risk model.

Backtesting result.

Clean backtesting CRR portfolio for the period 29 Dec. 2016 – 29 Dec. 2017 in EUR million.

VaR parameters: 99 % confidence level, 1-day holding period.

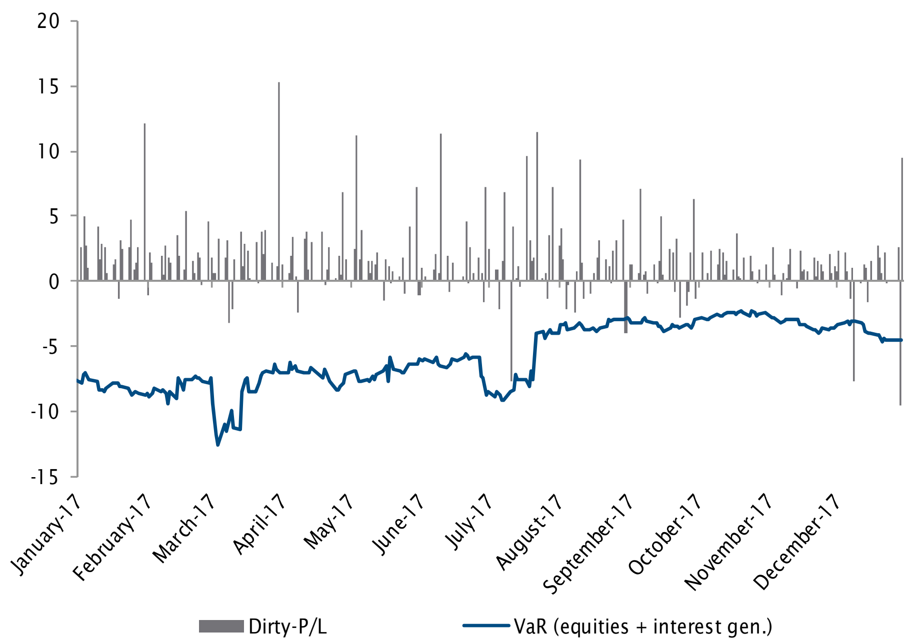


Up to and including the last reporting date of 29 December 2017, the internal risk model shows one outlier for the Clean P/L for the preceding 250 trading days in the CRR portfolio. This was due to a strong market movement of the EUR yield curves after the first round of the presidential election in France.

There was also one outlier in the banking book caused by a significant market movement in the EUR yield curve and change in the basis between USD yield curve and USD government bond curve. No outliers were recorded for the LBBW Group and the trading book.

Dirty backtesting CRR portfolio for the period 29 Dec. 2016 – 29 Dec. 2017 in EUR million.

VaR parameters: 99 % confidence level, 1-day holding period.



On the basis of the Dirty P/L four outliers were recorded for 2017 for the CRR-relevant portfolio and three for the trading book. The first outlier in August in the CRR portfolio was due to the sharp fluctuation in the EUR-USD exchange rate. The second outlier in August resulted once again from a fluctuating EUR-USD exchange rate and additionally from changes in the credit valuation adjustments that are calculated every month. Two outliers arose in December in the CRR portfolio and the trading book due to changes in valuation adjustments. The third outlier in the trading book occurred in July, also due to changes in the credit valuation adjustment.

No outliers were recorded for the LBBW Group and the banking book on the basis of the Dirty P/L.

No additional equity is therefore required for model outliers for regulatory purposes. Since five outliers are necessary to impact on the weighting factor of the internal model, it remains unchanged.

Stress test.

In an unchanged adverse case scenario, the stress test value for LBBW Group in December 2017 was roughly one-third higher than the previous year. The scenario represents a widening of the credit spreads between 30 and 1 500 basis points, depending on the rating. The increase was largely due to the new credit spread risk exposure in July.

The effects of an interest rate shock on the strategic bank position are calculated within the scope of conducting the stress test. For this purpose, the interest rate curves are shifted by +/– 200 bp. The regulatory requirements stipulate that the result may not exceed a 20 % share of liable equity. This limit was never breached in 2017.

Market liquidity risks.

Market liquidity risk designates the risk that transactions cannot be closed out, or can only be closed out at a loss, due to inadequate market depth or market disruptions. For example, if a large volume were to be bought or sold quickly, then a corresponding market-price influence would be anticipated, potentially reducing the expected proceeds.

The market liquidity risk is calculated for bonds, credit derivatives, equities and OTC interest rate derivatives. It is broken down into exogenous and endogenous risks. The exogenous market liquidity risk results from the fact that the valuation of market risk positions is based on mid values but bid or ask prices are achieved when positions are closed out. The volatility of the bid-ask spread is included when calculating the exogenous risk. The endogenous market liquidity risk occurs in cases where the Bank's own position relative to market capacity can no longer be ignored. Here there is a risk that liquidation or closeout of the position will result in an additional change in the bid-ask spread that is unfavorable from LBBW's point of view.

The market liquidity risk is calculated using a model that includes bonds, credit derivatives, OTC interest rate derivatives and equities. As at 31 December 2017 the market liquidity risk calculated using this model stood at EUR 383 million and had increased by EUR 88 million in the course of the financial year. The rise is attributable to, among other things, an increase in bond holdings with a high credit rating held for liquidity investment purposes and the inclusion of additional product groups in the calculation of the credit spread risk within the scope of developing the risk model.

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 today's perspective has a positive effect on the LBBW Group result. The extent of this effect depends on the development of the LBBW Group's holdings. Moreover, the interest rate development has an impact on various portfolios. Risks but also opportunities can arise, depending on the positioning or orientation of the portfolio and the trend of interest rates. Rising interest rates tend to have a negative effect on LBBW's banking book portfolio. At the same time, however, rising interest rates allow a gradual increase in net interest income in the future.

Liquidity risks.

Definition.

LBBW's liquidity risk monitoring and management activities draw a distinction between short-term liquidity risk in the narrower sense, which represents the risk of insolvency due to an acute funding shortfall, and the funding (spread) risk, which describes the adverse effects on income resulting from a possible deterioration of funding spreads.

Liquidity risk management.

Risk measurement	▪ Calculating the overall funding requirement (cash flow from the existing portfolio and quantification of call risks) ▪ Calculating the overall funding potential (quantification of available liquidity reserves and unsecured market potential) ▪ Liquidity stress testing ▪ Assessment of structural liquidity ▪ Analysis of the investor base for possible concentrations ▪ Monitoring of intraday liquidity
Risk monitoring and reporting	▪ Daily monitoring and preparation of detailed reports on the funding requirements (cash flow from the portfolio) for each location and currency ▪ Daily monitoring of the development of available liquidity reserves ▪ Monitoring of and reporting on the overall funding requirements and potential of the Group at least once a week ▪ Monthly reports on all aspects of the liquidity and funding risk in the Risk Committee and ALCo
Risk management	▪ Specifications on liquidity risk tolerance in the form of limits for the maximum funding requirement, survival times for cover through funding potential and stress test specifications ▪ Defined escalation routes in the event of a breach of the specifications ▪ Management of the assets and liabilities sides of the balance sheet via funds transfer pricing ▪ Active management of intraday liquidity

Risk measurement.

Determining the liquidity risk position involves, among other factors:

- Calculating day-specific liquidity gaps (funding requirements based on net maturities from the business portfolio) in all currencies for LBBW (Bank).
- Quantification of all material call risks on a daily basis.
- Calculating the potential funding available from central bank on a daily basis.
- Drawing up day-specific liquidity gaps and the liquidity portfolio for the LBBW Group (from the overall funding requirements and potential) twice a week.
- Conducting a five-day stress test on a daily basis as well as calculating stress tests on a monthly basis and longer-term stress tests as required. Ongoing review and adjustment of assumptions and parameters used, if necessary.
- Monthly preparation of a liquidity flow analysis to assess structural liquidity and as the basis for planning funding.
- Preparing investor lists on the basis of which possible concentrations and any changes with regard to the diversification of the investor base can be identified.
- Monitoring and calculating key figures on intraday liquidity.

Liquidity risk tolerance is primarily defined by reference to a survival period concept, i.e. time frames are specified by senior management over which LBBW is expected to remain at least solvent, even in the event of severely limited opportunities to borrow on the market, subject to different combinations of assumptions (development paths).

The assumptions to be made in the regular check of adherence to these parameters, especially within the framework of stress tests, are regularly checked to determine whether they are still adequate under the ongoing market conditions. If they need to be adjusted due to current developments, this is reported to senior management via the Risk Committee and, if approved, results in timely adjustments.

In addition, there is a limit system for the maximum funding requirements based on maturities from the business portfolio across various time frames and currencies, and utilization reviews that match the funding requirements with the potential funding.

The following measures, amongst other things, are used for the early identification of new call risks or increased risk from known but previously immaterial call risks:

- Permanent analysis of the documented business operations (overall risk report, ALCo documents, New Product Processes) with regard to new or increasingly significant call risks.
- A liquidity group consisting of Treasury, Risk Controlling, Regulatory Reporting and Financial Controlling convenes regularly for an operational report on current liquidity issues.
- Monitoring the daily intraday liquidity as part of the active liquidity management via the ECB account. Additional check to see if large cash flows occur that are not from transactions due or other familiar causes of payment flows.
- Reviews of models, assumptions and materiality classifications within the scope of the Group's risk inventory processes.

All key subsidiaries as defined in the risk inventory (Risk Management Group) and conduits are transferred via the liquidity risk strategy into a single framework for strategic specifications of the activities involving liquidity risks. This is achieved by, for example, determining requirements for structuring funding or reporting obligations. The liquidity risks for subsidiaries and affiliates are assessed on a case-by-case basis and dealt with in the same way as at LBBW (Bank) according to their materiality.

Risk monitoring and reporting.

The regular monitoring of liquidity risks is the responsibility of the LBBW Risk Committee at the management level, and prepares decisions for the Group's Board of Managing Directors. Liquidity Risk Control is responsible for daily monitoring at the operational level. All material aspects of liquidity risk, such as liquidity requirements, liquidity buffer and compliance with the specifications on liquidity risk tolerance including the results of the stress tests carried out, are reported in detail monthly in the Risk Committee via the overall risk report and the intraday liquidity on every quarter. Detailed reports are prepared daily as part of the continuous monitoring, which show the different partial aspects of liquidity and liquidity risk – such as disaggregation of the liquidity gaps by currency – and are distributed to recipients in Group Risk Control and Treasury.

Risk management.

The Asset Liability Committee (ALCo), which meets on a monthly basis, is the central body for managing liquidity and funding. The ALCo draws up the liquidity and funding strategy on behalf of the Group's Board of Managing Directors, presents it to the Board for approval and monitors implementation of decisions.

Treasury implements all the decisions to be made by the Asset Liability Committee with the aim of active income and risk optimization while simultaneously ensuring solvency at all times and compliance with the requirements with respect to liquidity risk tolerance. The strategic parameters in terms of liquidity risk tolerance are designed in such a way that the Group's solvency in EUR and foreign currency is secured for a sufficiently long period even in extreme market situations and in the event of a marked deterioration of LBBW's credit rating as perceived by market players in order to survive temporary crises. This also ensures that in the event of temporary adverse developments an adequate time window is available for adapting the business strategy and considering alternative business policies.

The ALCo is responsible for the internal netting interest rates (opportunity interest rates) and for monitoring the steering effects of the opportunity interest rates and pricing models on the business units and liquidity and funding situation of the Group. Group Risk Control monitors the risk adequacy of methods to calculate the internal funds transfer pricing. The ALCo is responsible for the methods. In case of updates, the Risk Committee validates the methods.

Treasury is responsible for the operational management of market- and risk-adequate internal transfer prices that have to be adjusted continuously to market conditions, and is a fundamental component of the management of the assets and liabilities sides of the balance sheet.

The purpose of LBBW's funding strategy is to diversify product and investor groups. In 2017, investments by savings banks and institutional investors within Germany again constituted the main sources of medium- and long-term funding in addition to retail business. Covered bonds continue to represent a material source of funding. These were issued increasingly in the benchmark segment because of the regulatory framework (LCR). In addition, LBBW issued a large-volume four-year green bond for the first time in December.

Treasury is responsible for securing the intraday liquidity. It actively manages the daily payments and calculates liquidity requirements up to the end of the day if necessary, while continuously taking into account payment inflows and outflows that only become known during the course of the day, as well as performing the central bank function for savings banks. Liquidity Risk Control evaluates the daily payments and monitors intraday liquidity, using calculated key figures that are reported to the Risk Committee.

An emergency plan is in place for securing liquidity in acute crisis situations. The provisions made include the formation of a crisis response team bringing in members of the Board of Managing Directors. The emergency plan is reviewed annually and resolved anew by the Board of Managing Directors.

Risk situation of the LBBW Group.

The LBBW Group's liquidity situation was always comfortable during 2017. The customer deposit business showed the steady performance that was desired and capital market placements – both covered and uncovered – attracted lively interest among national and international investors. The LBBW Group's sources of funding are very stable in terms of volume and degree of diversification.

As at the reporting date of 31 December 2017, the funding needs and the counterbalancing capacity were as follows:

Overview of funding requirements and counterbalancing capacity.

EUR billion	3 months		12 months	
	31 Dec. 2017	31 Dec. 2016	31 Dec. 2017	31 Dec. 2016
Funding requirement from the business portfolio (deterministic cash flow)	–7.1	6.7	–6.9	11.0
Funding requirement from material call risks (stochastic cash flow)	16.7	14.4	32.3	31.7
Funding potential from free liquidity reserves	18.5	19.7	23.4	27.0
Funding potential in the market	45.3	38.1	61.7	53.8

The funding requirement from the business portfolio was negative at year-end 2017, as liquidity inflows exceeded the outflows and thus reduced the overall funding requirement. The funding potential was adequate to compensate for any short-term liquidity outflows and continues to ensure significant overcollateralization on a three and 12-month horizon. Over the year as a whole, the surplus cover from cover registers that are not required to preserve the covered bond rating is applied towards the free liquidity reserves and is therefore increasing the total funding potential. The Funding potential in the market is approximated on the basis of historical data on the unsecured funds actually raised.

Results of the economic stress scenarios.

EUR billion	Funding needs (3 months)		Funding counterbalancing capacity (3 months)	
	31 Dec. 2017	31 Dec. 2016	31 Dec. 2017	31 Dec. 2016
Rating downgrade scenario	13.0	24.5	39.2	39.9
Financial market crisis scenario	13.0	24.9	51.4	49.8
Combined scenario of market crisis with downgrade	13.2	24.8	46.8	46.0

The targeted stress resistance was met throughout 2017. The liquidity risk stress scenarios rating downgrade, financial market crisis, and market crisis with downgrade, structured in accordance with the guidelines of MaRisk (BTR 3.2), show that the remaining funding potential via the market, plus the free liquidity buffer, always exceeds the potential funding requirements under stress scenarios for this period.

In addition to the requirements for stress resistance, the limits and requirements of the LBBW's liquidity risk tolerance set by the senior management also include limits for the maximum funding requirement arising from maturities from the business portfolio and requirements concerning their coverage through funding potential. The limitations were observed throughout the whole of 2017 with one one-day outlier (USD limit). The limitation was observed again as of the following day.

The prescribed minimum value of 80% for the European indicator for short-term liquidity »Liquidity Coverage Ratio (LCR)« was observed at all times in 2017. At 145.8%, it was exceeded significantly as at year-end 2017 (31 December 2016: 110%). This also applies to the requirements of the standard approach of the Liquidity Regulation (LiqV), for which a reporting obligation exists for the last time this year. At 1.92 as at 31 December 2017, it also clearly exceeded the requirement of 1.0 (31 December 2016: 1.50).

Opportunities.

We believe the LBBW Group's liquidity situation will be comfortable in 2018 as well. At the start of the year, LBBW is offered more funds on the money and capital markets than currently required to fund the Group. This was also the case in previous years. The broad- based and well-diversified funding basis would make it possible for LBBW to raise much more in terms of funding resources. We expect the ECB will continue to pursue an expansionary monetary policy in 2018 too, thus providing the money and capital markets with ample liquidity. It is our view that this situation will not change in the short term, even though the current QE program (quantitative easing) may end after September 2018. Investors remain very interested in the LBBW Group's funding products at the start of 2018. Thus there are no discernible restrictions on the funding side for the future performance of the LBBW Group.

This chapter on Liquidity risks in the Risk and Opportunity Report represents the risk declaration of the Board of Managing Directors in accordance with Article 435 (1f) CRR and complemented by the EBA guideline on disclosure of the liquidity coverage ratio (EBA/GL/2017/01).

Risk management system for covered bond (Pfandbrief) operations.

A differentiated limit system was put in place to monitor risks from covered bond (Pfandbrief) operations (section 27 of the German Covered Bond Act (Pfandbriefgesetz – PfandBG)). Regular stress tests are conducted with regard to NPV (net present value) overcollateralization. In the event that the fixed limits are reached, a process for then cutting the risk is implemented. The Board of Managing Directors and the Risk Committee are informed on a quarterly basis of compliance with the provisions of the PfandBG and the utilization of legal and internal limits. The statutory requirements were met at all times in 2017. The risk management system is reviewed at least annually. The registration and administration of the cover register was migrated to a new technical platform in 2017.

Operational risks.

Definition.

LBBW defines operational risks (OpRisk) as the risk of losses arising due to the unsuitability or failure of internal processes and systems, people, or due to external events. Legal risks can lead to losses in each of the aforementioned risk categories. This is because in each category the LBBW Group may be subject to legal claims, lawsuits or legal proceedings due to failure to observe statutory regulations and underlying conditions.

Credit risks in connection with operational risks are likewise viewed in line with regulatory requirements. The effects of this are included in the information on counterparty risk. Business risks and reputation risks are not included under operational risks.

Management of operational risks.

Risk measurement	▪ Pillar I: Standard approach ▪ Pillar II: OpVaR
Risk monitoring and reporting	▪ Dual overall approach; central, decentral ▪ Central parameters: strategy and rules and regulations ▪ Organizational model: roles and responsibilities ▪ Risk monitoring: OpRisk Controlling methods and instruments ▪ Derivative sales process, scoring system for risk indicators ▪ Internal reporting (quarterly to the Risk Committee, monthly to the Internal Risk Committee, ad-hoc reportings) ▪ External reporting ▪ Risk situation
Risk management	▪ Observing the specifications set for the »operational risk strategy« ▪ Determining the action strategies decentrally ▪ The management of measures for reducing risk

Risk measurement.

The standard approach is used to calculate regulatory capital requirements in the normative (regulatory) steering group at the LBBW Group. In connection with LBBW Group's risk-bearing capacity (RBC), an operational value-at-risk (OpVaR) model is applied for the economic steering group.

The model is based on the loss distribution approach. Separate segment-specific modeling is carried out for the distribution of frequency and size of loss. Internal and external losses together with scenario analyses are included for the OpVaR calculation.

In line with the other types of risk, a time frame of one year and a confidence level of 99.93% were used to calculate the OpVaR within the framework of risk-bearing capacity.

The OpVaR model used for internal controlling is integrated into the Group's strategic limit system. There are economic stress scenarios that vary the risk parameters of the OpVaR model (frequency or amount of loss in expected future loss events). This covers the main business lines and event types. The stress test results for operational risks are also incorporated in the overarching MaRisk stress scenarios.

An in-house development based on the Wolfram Mathematica software combined with a web application is used for the OpVaR calculation.

Risk monitoring, reporting and risk management.

The LBBW Group has a comprehensive system for the management and controlling of operational risks. On the basis of a dual overall approach, firstly an independent, centralized organizational unit within the Group Risk Control division is tasked with further developing and implementing the methods and tools used by OpRisk controlling. Secondly, in the LBBW Group, the execution of the processes implemented for the management of operational risks is mainly the responsibility of the individual divisions and subsidiaries.

The central parameters for handling operational risks are anchored in the risk strategy and policy for operational risks as well as in the framework and instructions. Here the risk strategy and policy regulate the risk profile of the LBBW Group, the principles of the risk culture, the organizational structure as well as the risk management and controlling process with regard to operational risks.

The functional organizational model describes in detail the roles and responsibilities of the process participants (Three Lines of Defense model).

As the first line of defense, the local operational risk managers play a very important role in supporting division management and managing directors in the use of operational risk controlling tools. They ensure the quality, completeness and timely processing of the operational risk information within the prescribed parameters. At the same time, operational risk managers serve as contacts and multipliers for employees on the topic of operational risks. Central OpRisk Controlling represents the second line of defense in conjunction with downstream control processes and is in close contact with the local OpRisk managers. At the same time, the Compliance division carries our further monitoring activities. Group Auditing carries out the process-independent reviews and evaluation (third line of defense).

Various methods and tools are used to identify and assess the risk situation. In addition to the internal and external loss database, a risk inventory is conducted annually with self-assessments and scenario analyses. The self-assessments record the individual risks of each division and the material subsidiaries of the LBBW Group. The most important risks are aggregated and analyzed extensively in the scenario analysis using standard scenarios. In addition, risk indicators are recorded on a regular basis to identify possible unwanted developments at an early stage.

The overall exposure to operational risks is aggregated within the risk-bearing capacity concept on the basis of operational value-at-risk (OpVaR) in the LBBW Group's limit system. The risk data collected are used to carry out specific analyses, from which extensive control-relevant information can be derived. This forms the basis for drawing up and implementing measures to reduce these risks.

One of the main goals of operational risk management and control activities is to identify operational risks at an early stage, presenting them in a transparent manner and managing them proactively. OpRisk measure management plays a key role here. Four action strategy options are available for handling operational risks: avoid, transfer, reduce or accept risks. The risks are managed proactively by the divisions and subsidiaries on the basis of the risk strategy for operational risks, and using the recorded and analyzed risk data. The divisions and subsidiaries take the decision on the selection and prioritization of the corresponding measures, which are implemented decentral. Besides the internal control system and an open risk culture, the sensitivity to risks of all staff members and the handling of risks in an open manner play another important role in limiting operational risks. The objective is to minimize or avoid risks, taking cost/benefit aspects into consideration. If it is not possible to completely avoid possible losses the central Legal division obtains insurance policies to cover potential losses – as far as this is possible and reasonable. Continuous improvement of business process, among other things, offers another possibility of reducing potential operational risks further. Emergency concepts and business continuation plans drawn up within the scope of Business Continuity Management are used to limit losses in the event of an emergency.

The centralized OpRisk Controlling unit provides decision-makers with relevant information as part of regular risk reporting. Ad hoc reports are also made depending on the amount of loss. The Risk Committee also supports the Board of Managing Directors in exercising its supervisory function. The operational risks as well as the risk-bearing capacity monitoring and stress analysis for all risk types are therefore incorporated and integrated in the overall risk management.

Risk situation of the LBBW Group.

Existing operational risks in 2017 were always in accordance with the risk-bearing capacity of the LBBW Group. Looking forward, LBBW does not expect any operational risks to its going- concern status. Despite the extensive precautionary measures taken, operational risks can never be entirely avoided.

Legal risks, IT risks and personnel risks are set out below as they are key areas of the operational risk.

Legal risks.

The definition of operational risks also includes legal risks. Legal risks comprise economic risks due to full or partial failure to comply with the framework of rules established by legal regulations and court rulings. These arise, for example, due to inadequate knowledge of the concrete legal position, insufficient application of the law or failure to react in a timely manner to changes in underlying legal conditions. This also applies if there is no fault or if the situation was unavoidable, for example as a consequence of changes in legislation, jurisdiction and administrative practice, especially at national and European level.

Legal risks are managed especially by LBBW's Legal division, which carries out a legal advisory role for the Group. In addition, its responsibilities include early identification of legal risks in business units and central divisions in cooperation with them, and efforts to limit these in a suitable manner. The Legal division has developed or examined and approved for use by the divisions of LBBW a variety of contract forms and sample contracts in order to minimize legal risks and simplify the business activities of the front office and trading division. In relation to this, LBBW is supported by the cooperation of the German Savings Banks Finance Group (DSGV) and the forms developed in the committees there and made available by the Sparkassenverlag publishing house. Approved, standardized contract materials are used for derivative transactions wherever possible. If legal questions arise in new areas of business or during the development of new banking products, the Legal division supervises and actively shapes these processes.

Furthermore, the Legal division monitors all relevant planned legislation, developments in court rulings, and new standards stipulated by the supervisory authorities in the Group's key areas of activity in close cooperation with the Association of German Public Sector Banks (Bundesverband Öffentlicher Banken Deutschlands – VÖB), the German Savings Banks Finance Group (Deutscher Sparkassen- und Giroverband), and the Association of German Pfandbrief Banks (Verband deutscher Pfandbriefbanken – VdP) in particular.

To the extent that this results in LBBW having to take action with regard to legal matters or adapt its policies, the Legal division is instrumental in disseminating information quickly and implementing measures within the Group.

In view of recent rulings by the Supreme Court and higher courts, the banking landscape continues to face not inconsiderable legal risks from customer transactions in complex derivatives and the further development of consumer protection. The application by the German Federal Court of Justice (Bundesgerichtshof – BGH) in 2017 of principles of consumer rights to commercial customers underlines the need to intensely pursue the respective legal developments.

Further legal risks exist in fiscal law terms concerning the requirements for deducting capital gains tax. Here, a developed legal position with a retrospective impact on the basis of new legislation or new pronouncements by the revenue authorities cannot be ruled out.

The continuous processes of legal analysis and risk processes initiated by LBBW's Board of Managing Directors in response to this also take account of the aforementioned developments.

As far as is known today, adequate provision has been made to cover legal risks while at the same time the future development of legislation and legal disputes will continue to be of crucial importance for LBBW. Here the provisions formed relate, also against the backdrop of the unclear legislative situation, principally to covering legal risks from certain derivatives transactions as well as risks relating to consumer law.

IT risks.

Today the principal business processes of the Bank are to a large extent supported by IT or depend on IT solutions. The IT systems are becoming increasingly more complex, the volume of data greater, the degree by which functions are shared and the threat to IT systems continues to grow, which on balance leads to higher IT risks. As a result, security of information is also of key importance as a risk-mitigating function. In line with this increasing importance, LBBW operates and continues to develop an Information Security Management System (ISMS) based on international standard ISO 27001.

Managing IT risks is anchored within the company as a permanent, integrated process and is guided by the risk management and controlling process control cycle.

Specific risk analyses, self-assessments and scenario analyses are carried out, threats and weak points from different data sources (e.g. S-Cert computer emergency team, BSI catalog and experts) are evaluated and the information obtained is copied into the control cycle of the risk management and controlling process in order to get as complete a picture as possible of the Bank's IT risk situation.

Threats and risks are continuously analyzed, evaluated and backed by security measures to reduce them to an acceptable level.

By collecting selected risk indicators on IT operations and security over a longer period of time, unwanted developments can be identified, so that a threatening situation can be combated in good time.

By outsourcing its IT production operations and a part of its applications development in 2013 to a professional service provider specializing in financial institutions, LBBW focuses on risk-reducing benefits, such as the systematic use of standardization, enhanced cost efficiency and maintaining its ability to innovate.

LBBW has set up a special IT crisis response team to ensure that its business operations are maintained and that it can function if IT systems fail; in the event of an emergency, this team will coordinate all activities and provide centralized communications capabilities, also with the IT service providers, in accordance with defined procedures. The procedure and organizational measures to be taken in the event of a crisis are described in an IT crisis management manual. The IT crisis management manual, the IT crisis rooms and key positions are reviewed on a quarterly basis.

Personnel risks.

LBBW's success depends materially on the commitment of its staff – and is also anchored in LBBW's mission statement: »We as employees drive the success of the Bank; with competence, knowledge and commitment«. LBBW's comprehensive personnel risk management aims to identify negative trends (risk monitoring) and evaluate suitable measures to prevent or minimize risks (risk management).

The Human Resources department distinguishes between various types of personnel risk for purposes of risk monitoring and management. The goal is to identify bottleneck, resignation, adjustment and motivation risks early on, and to minimize the resulting costs, such as staff recruitment, termination and staff turnover expenses. These risks are measured by periodically evaluating and analyzing key human resources indicators, such as fluctuation rates, absences, or data concerning personnel development measures, as well as comparing these indicators across the Group.

One focus here is on developing and promoting young employees within the company. In order to address the risk of a shortage of high-performance employees (bottleneck risk), employee potential is systematically documented and analyzed. Changes in LBBW's age structure are observed particularly closely against the backdrop of demographic changes.

LBBW has already implemented a series of measures to address possible personnel risks. These measures range from legal protection for LBBW to ensuring that employees are qualified to perform the tasks assigned to them. Among other things, a target group-oriented specialist training program is held annually. In addition, a dedicated department is responsible for providing training in and monitoring of statutory money laundering and compliance regulations. The Code of Conduct of LBBW also applies to all members of staff. These measures should also help to counter possible behavioral risks related to the staff.

Opportunities.

At LBBW Group the interfaces between the divisions are constantly adjusted in line with the current regulatory requirements with regard to operational risk and joint processes developed. In addition, close cooperation with the OpRisk managers and other persons in charge of interfaces leverages synergies. The staff of LBBW Group is also informed regularly of the risk culture in the LBBW Group. This provides a uniform and holistic view of the risk situation, among other things. LBBW intends to further develop the database to include the OpRisk data for 2018. The further automation of the reporting system will enhance the data quality and allow faster responses to unwanted developments. The processes relating to legal risks, new products or outsourcing are regularly monitored and further developed. These measure help to constantly improve the risk situation.

LBBW intends to further develop the IT risk management throughout the Bank, where it will use the processes, methodology and structures of the central risk controlling, among other things, as a basis. This IT risk management will allow the specialist divisions to adequately assess the risks arising from the use of IT as part of business processes and to decide on protective measures from an economic perspective. LBBW's IT risk management is being developed further on the basis of current regulatory requirements.

Other material risks.

Investment risks.

LBBW invests within the Group in other companies or assigns functions to subsidiaries if this appears to be appropriate in the light of strategic aims or returns.

By investment risks in the narrower sense LBBW understands in particular the risk of a potential loss of value both as a result of default events and due to an insufficient return on investments in subsidiaries and equity investments.

In order to limit the investment risk, subsidiaries and equity investments are only taken on if adequate risk management and appropriate integration in the processes of LBBW are ensured.

Depending on LBBW's possibilities for exerting influence, management of the subsidiaries and equity investments is effected by means of defined measures and processes (including quarterly jour fixes with selected subsidiaries, plausibility checks of the multi-year plans, various reports to the Board of Managing directors and corporate bodies of LBBW and the corporate bodies of the subsidiaries).

The early identification of business and risk development in the subsidiaries and equity investments is particularly important to the management of equity investments. These serve the purpose, especially for the strategically important subsidiaries, of holding regular coordination meetings at the corresponding specialist levels of LBBW. The management and monitoring at the level of these subsidiaries are generally performed by institutionalized supervisory boards or comparable bodies. At Group level management and control is effected by involving the staff, operating and marketing divisions in the decision-making process, taking corporate governance into account.

From the point of view of risk, a distinction is made between two categories of companies in the LBBW portfolio of equity investments (direct LBBW subsidiaries and equity investments and those held via holding companies):

- Material subsidiaries, i.e. companies in which LBBW has a majority shareholding and whose risk potential is classified as material from a Group point of view. These companies form the Risk Management Group
- Non-material subsidiaries, i.e. companies whose risk potential is classified as immaterial from a Group point of view.

As a rule, material subsidiaries are treated in line with the transparency principle. Accordingly, all material risks at Group level for each subsidiary of the Risk Management Group are quantified separately, using estimation procedures if necessary.

In the case of non-material subsidiaries, the risk potential is quantified with the LBBW Group credit portfolio on the basis of the interest held and included as a whole in the Bank's risk management system, using an integrated simulation. This calculation is performed using a ratings-based CVaR approach including stress testing, which is prepared by Group Risk Control and serves as the basis for recognition in the risk-bearing capacity.

The business and risk trends in the portfolios of the subsidiaries that are deemed non-material from a risk perspective are generally reflected in the value of the investment as used to calculate the investment risk.

LBBW pursues a selective equity investment policy. When acquisitions of companies are planned, a comprehensive risk analysis (legal, financial etc.) is normally conducted in the form of a due diligence exercise with the involvement of specialist divisions of LBBW. Of particular importance here, among other things, is ensuring that inappropriate concentration of risk does not arise in the investment portfolio.

LBBW uses transaction agreements to contractually hedge risks as far as possible. In addition, the buying process includes the valuation of the company, taking into account capital-market-oriented risk premiums.

Enterprise values for the subsidiaries and equity investments of LBBW are calculated annually in accordance with the guidelines issued by the Institute of Public Auditors in Germany (Institut der Wirtschaftsprüfer in Deutschland e. V. – IDW) as part of preparatory work for the annual financial statements. For the half-yearly report, an impairment test of the book values is performed, using the projections for the subsidiaries and equity investments to hand if necessary. A plausibility check of the valuations is performed on selected subsidiaries and equity investments as at 31 March and 30 September.

Besides the risk of a potential decline in value as the result of defaults, there is also a risk that LBBW will receive an insufficient return or no return at all on its investments. However, this risk corresponds to the above-mentioned general book value or fair value risk due to the focus on capitalized income value in the valuation of equity investments. The main drivers here are the large strategic subsidiaries and equity investments. LBBW's equity investment portfolio has a strong financial focus. Accordingly, a disruption in this market segment may lead to significant losses from equity investments.

Risks may also arise from the utilization of the personal liability assumed as shareholder (e.g. guarantor's liability, letter of comfort) for subsidiaries and investments; this also includes revoked letters of comfort or warranty declarations extended to subsidiaries and investments already disposed of. In addition, there is a risk of assuming current losses incurred by subsidiaries due to control and profit and loss transfer agreements.

Management and monitoring systems ensure that LBBW is continually informed about the situation at the subsidiaries and equity investments. In addition, the subsidiaries pursue a conservative risk policy synchronized with LBBW to the extent that LBBW can influence such policies.

The investment portfolio was reduced further in the 2017 financial year: this included the sale of ConCardis GmbH, BW Capital Markets Inc., LBBW Spezialprodukte-Holding GmbH and Rhin-Neckar S.A within the scope of the liquidation or merger. The silent partners' contribution in DekaBank Deutsche Girozentrale was also reduced.

Opportunities.

Generally speaking, LBBW's strategic equity investments and subsidiaries offer an opportunity to optimally exploit market potential and thereby strengthen LBBW's market position vis-a-vis target customers and core markets as well as an opportunity to optimally exploit existing value potential and an adequate return on capital (dividends/payouts). The investment portfolio is adjusted through the sale, merger or liquidation of further smaller subsidiaries and investments, thus lowering the degree of complexity in line with the business strategy.

Reputation risks, business risks, pension risks and model risks.

Reputation risk is the risk of a loss or foregone profit due to damage to/deterioration of LBBW's reputation in the eyes of owners, customers, employees, business partners or the wider public. Reputation risk is not a component of operational risk. However, reputation risks may be caused by an incident of loss resulting from operational risk or other risk types becoming public knowledge. Reputation risks that have been incurred can impact on the business and liquidity risks.

LBBW draws a distinction between transaction-based reputation risk management (measures relating to individual business transactions) and non-transaction-based reputation risk management (press/issue management in particular).

In all business decisions the effect of the transaction on LBBW's reputation is to be considered. Transactions that have a long-term negative impact on LBBW's reputation are avoided. The sustainability policy of the LBBW Group must be observed. It is the LBBW Group's intention to act in the best and long-term interest of its customers and stakeholders.

In order to implement a policy of sustainability the Corporate Sustainability and Health department defines standards for all business areas. The transaction-based analysis of new transactions with regard to reputation risks is carried out on a decentralized basis by the front office particularly within the context of the New Product Process (NPP) and the credit application process. The Compliance division and the Corporate Sustainability and Health department support the relevant front office divisions in their day-to-day business in identifying and assessing reputation risks. In the case of OTC derivatives for interest-rate, currency and commodity management there is a product certification process upstream of the NPP.

Business risk is the risk of unexpected falls in earnings and negative plan variances not caused by other defined risk types. They may be caused by factors including changes in customer behavior or changes to the economic environment, as well as by the impact of reputational damage incurred. It is reflected in particular in lower commission income or net interest spreads as well as in increased costs.

In order to create transparency for the business risk, the risk of failing to meet targets is to be included in the planning process by pointing out the risk factors. The front office divisions have to align their structural and procedural organization in such a way that the risks involved in business activities are minimized and targets can be met.

Furthermore, for strategic projects (e.g. the realignment of certain areas of business or acquisition) the opportunities and risks are comprehensively weighed up and disclosed. All the relevant divisions are involved in the decision-making process.

The front office is responsible for taking individual measures as part of ongoing operating activities aimed at managing risks associated with business activities. Financial Controlling carries out a central comparison of planning and actual business development. The implementation of and adherence to the business strategy decided on by the Board of Managing Directors and the division-specific plans in line with this, as well as the implementation of strategic decisions made by the committees, are monitored by the relevant divisions together with Financial Controlling.

The historical plan/actual variances of selected items in the income statement form the basis for quantifying the business and reputation risks.

The pension risk entails the possible need to increase pension provisions on account of heightened expected pension expense, and in particular, valuation effects. This may particularly be caused by changes in interest rates, pensions and salaries. Pension risks are quantified by means of scenario analyses on the basis of an actuarial report. The pension risk is currently accepted and passively monitored. At the moment the interest-rate component, for example, is not hedged. Hence, rising interest rates provide LBBW with the opportunity of lower pension provisions. In the event of material changes the Board of Managing Directors makes a decision with regard to the risk strategy (accept or hedge the risk), taking account of income statement and equity volatility.

The model risk describes the risk of potential losses that can arise as a result of decisions that are based on the result of inappropriate or inaccurate models, or models that are misunderstood. Mistakes in the conception, application and validation of the models can be triggering factors. Models are used in LBBW to identify and manage capital and liquidity risks or for calculating the equity requirements (risk models), for the income statement (valuation models) and for decisions on business transactions (decision models).

LBBW significantly developed its processes for managing model risks in the year under review. In this context, it carried out a model inventory for the uniform recording of the models used and classified the identified models according to their relevance for the model risk. The principles of managing model risk were then set by the Board of Managing Directors in the form of an internal framework, whereby in dealing with model risks, LBBW emphasizes the secure identification of the corresponding risks and the fastest possible way of resolving them. The role of the independent validation unit was strengthened for this purpose. In the event that significant model risks cannot be eliminated within a reasonable period of time, precautions are taken for example through risk premiums, buffers, or specific set limits.

LBBW will further expand its framework for managing the model risks in 2018.

Real estate risks.

Real estate risks are defined as potential negative changes in the value of the Bank's own real estate holdings due to deterioration in the general situation on the real estate markets or deterioration in the particular attributes of an individual property (possibilities of use, vacancies, reduced income, damage to buildings etc.). This does not include development risks from residential and commercial project development business, which form a separate risk category, or risks from service business. The latter are taken into consideration in the LBBW Group as part of business risk.

Real estate risks can arise in properties owned by the Group (office buildings) as well as in the commercial buildings used by third parties. The real estate portfolio is managed above all by the LBBW Immobilien Group and BW-Immobilien GmbH.

Conversely, in the event of a positive change in market conditions opportunities arise for positive changes in value and the generation of further income (higher rents, extensions of leases, possibility of leasing difficult space etc.).

The central principles for weighing up opportunities and risks when assessing investment and divestment decisions, material changes in property planning, concluding rental agreements and to avoid the risk of negative changes in the value of existing real estate holdings are defined in the risk strategy of the LBBW Group and of LBBW Immobilien.

LBBW uses a real estate value-at-risk (IVaR) model to measure real estate risk. Group Risk Control calculates IVaR indicators for real estate risks quarterly and incorporates these into the Group's analysis of risk-bearing capacity. The input data in this model are the volatilities and correlations derived from market data histories assigned to the portfolio values.

The operating subsidiaries of LBBW Immobilien Group with operations in asset management are also controlled using special real-estate-specific indicators such as rent increases, vacancy rates and amounts in arrears. The real estate portfolio is monitored and analyzed for risks in the course of the quarterly portfolio valuation using the fair value approach. The goal is to identify at an early stage and analyze any adverse factors occurring as part of or relating to LBBW's activities. Proactive risk management ensures a balanced ratio of opportunities and risks within the portfolio.

The commercial portfolio is diversified by type of use, especially for office and retail property, as well as by size category. The strategic properties are predominantly located in Stuttgart, which is a stable market with relatively low rent fluctuations overall. Furthermore, the real estate owned by LBBW Immobilien is mostly situated in prime locations with low rental risk and leased to tenants of good credit standing. The credit rating of potential tenants is examined carefully when new properties are let and attempts are always made to ensure that the lease is as long as possible. Depending on the underlying real estate strategy (i.e. project development), however, it makes sense and is possible in particular cases to conclude short-term rental agreements. In addition, the performance of the portfolios that are located mainly outside Stuttgart – currently in Munich and Frankfurt am Main – contribute to macro location-specific diversification. These are purchased individual properties or (sub-)portfolios that will continue to be fully let through active asset management. Subsequently, the properties will be sold again (in the medium term). Overall, risks specific to macro locations are therefore considered to be manageable.

In LBBW's asset management segment, investment and divestment decisions are usually made on a case-by-case basis following an in-depth performance audit, given the manageable number of properties. In this process, a comprehensive set of real-estate-relevant criteria, such as the cost/income situation, the Group's strategy for use/growth, the ability of the location to develop, portfolio diversification or representative purposes for the Group are taken into account.

BW-Immobilien GmbH is responsible for LBBW's owner-occupied real estate. Most of the properties are used for office or bank purposes. The target portfolio is continually adapted to the uses required by the LBBW Group as well as aiming to optimize space utilization at all of the LBBW central offices. This is largely being achieved by concentrating on properties owned by LBBW, by avoiding rented space as much as possible and by optimizing occupancy. As a result, this is not expected to have a significant influence on the holdings LBBW uses itself or the real estate risk.

The German Centres support companies from German-speaking countries in expanding their operations abroad, by providing premises and a comprehensive range of services. The owner-occupied real estate of the German Centres is therefore determined by the strategic orientation and needs of the corporate customers. Business activity is not focused on generating profit from developing, selling or asset management of the German Centres' real estate.

Development risks.

Development risks are defined as the bundle of risks that typically arise when implementing commercial and residential project developments. The risks in this field mainly arise from planning and approval, the projected construction costs and deadline, and especially from leasing and selling. Additional risks, such as the credit risk on the part of partners or the implementation of decisions regarding the partners, information flow or the quality of the partner also apply if project developments are implemented in partner projects. The occurrence of these risks may also result in the expected return not being generated, the invested capital not being returned in full - or not at all in extreme cases - or the need for further equity injections, provided it is not non-recourse financing.

Conversely, in the event of a positive change in market conditions opportunities arise for higher exit proceeds, driven by higher rental income as well as higher multiples. At the same time, however, a positive market trend makes it more difficult to purchase suitable development properties at favorable prices.

The central principles for weighing up opportunities and risks before commencement of a project and in all project phases with regard to factors relating to individual projects and the effects on the project portfolio are defined in the Group risk strategy of the LBBW Group and of LBBW Immobilien.

The regional focus is on the core markets of Southern Germany (Baden-Württemberg and Bavaria), Rhineland-Palatinate, the Rhine Main region and Berlin. LBBW Immobilien Group acts as an investor and service provider in commercial and residential real estate on these markets. Existing projects outside these target markets, especially on international markets, have largely been completed. The new projects are running on schedule and there is no evidence at present of any material risks.

LBBW Immobilien Group uses a risk model that was validated with the assistance of an auditing company to measure development risks. The model is based on a risk driver tree that identifies risks and shows the ranges in which these can fluctuate even before a construction project begins. From this, mark-ups and mark-downs on all future costs and revenues are determined and applied to the so-called real case calculation. A normal and extreme risk is calculated on the basis of different fluctuation ranges of risk factors. Development risk is calculated quarterly by the Controlling division of the LBBW Immobilien Group. The central Group Risk Control division includes this in the LBBW Group's analysis of risk-bearing capacity.

ICS with regard to the accounting process.

The LBBW Group defines the internal control and risk management system (ICS) as a comprehensive system and applies the definitions of the German Institute of Public Auditors in Germany (Institut der Wirtschaftsprüfer in Deutschland e. V., IDW) on the accounting-related internal control system (IDW PS 261 Item 19 et seq.) and the risk management system (IDW PS 340 Item 4). It entails principles, processes and measures that are aimed at the implementation, in organizational terms, of management decisions

- to ensure the efficacy and economic efficiency of the business activities (including the protection of assets as well as the prevention and detection of loss of assets)
- to safeguard the propriety and reliability of internal and external accounting, and
- to observe the statutory rules and regulations of relevance for LBBW.

The ICS for the accounting process and management reporting helps to provide a true and fair view of the net assets, financial position and results of operations of LBBW (Bank) and the LBBW Group. The assessment of the effectiveness of the ICS is carried out on the basis of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework. The ICS is made up of five components:

- The **control environment** provides the framework for the introduction and application of the principles, procedures and measures in a company.
- **Risk assessment** serves to recognize and analyze internal and external risks.
- The **control activities** ensure compliance with the management's decisions and address the corporate risks with suitable measures.
- **Information and communication** guarantee that information is collected for business decisions and passed on to the responsible divisions in the company.
- **Monitoring** the ICS serves to assess the effectiveness of the system over time.

A key aim is to ensure that all transactions are recorded, processed and documented in full and correctly in accordance with statutory provisions and standards, the provisions of the articles of association, and other guidelines.

It is also ascertained that companies included within the scope of consolidation are incorporated in the processes to ensure that the consolidated financial statements are prepared appropriately and in due time.

The accounting-related internal control and risk management system is an integral component of the ICS for integrated bank management.

Control environment.

LBBW has a clear organizational, corporate, control and monitoring structure. Its Board of Managing Directors takes overall responsibility for proper business organization. All organizational units are involved in preparing the annual and consolidated financial statements as well as the management report by means of a clearly defined management and reporting organization. The departments of all Group companies involved in the accounting process conform to quantitative and qualitative requirements. The employees tasked with the accounting process are provided with regular training.

Risk assessment and control activities.

The controls are geared toward ensuring that the annual and consolidated financial statements as well as the management report are prepared in accordance with the applicable provisions of the German Commercial Code (Handelsgesetzbuch, HGB) and the International Financial Reporting Standards (IFRS) as well as proper and timely compliance with internal and external financial reporting requirements. Clear regulations are in place regarding the scope of the controls and responsibilities integrated into working processes.

Every year, managers of each individual department determine which risks prevent the financial statements from complying with regulations and assess the relevance of these risks. They then document the recognized risks in the risk-control matrix.

In connection with the measures aimed at limiting certain recognized risks, it is worth mentioning the dual-control principle, the separation of functions and the assignment of authorities in line with existing decision-making regulations, among others. These have also been included in the regulations met by the respective Group companies. Authorizations and the emergency concept, for example, are also the subject of regular reviews.

Any recognized risks are reviewed using the ICS regulation cycle, which consists of three parts. The first is the ICS Quick-Check, wherein the organizational units concerned perform a self-assessment of the internal control system using a questionnaire. The second is management testing of select key controls using the risk-control matrix as a basis. The final component is the ICS Self Assessment. Control functions are exercised within each competent department throughout the Group. The control targets defined at LBBW map the identified risks in their entirety. These are set out in the written policies.

Both the annual financial statements for the Bank and the consolidated financial statements are prepared centrally by the Finance division at LBBW (Bank) with the involvement of the specialist divisions.

Detailed timetables and workflows are in place for the individual and consolidated financial statements (monthly, quarterly, half-yearly and annual financial statements), which are monitored and managed centrally. Responsibilities in all areas of the accounting process are clearly assigned. The relevant activities in terms of risk are distributed across several organizational units within the organization of business processes. The principle of dual control is applied to all processes relevant to accounting, the assignment of authorities complied with and the separation of functions taken into account.

The companies included in the consolidated financial statements have IT-based processes in place for preparing their financial statements (in accordance with local laws).This results in the delivery of the coordinated and, for the most part, audited annual financial statements for the purposes of preparing the consolidated financial statements. The senior management of the respective Group company is responsible for the completeness and accuracy of the results transmitted to the Group Accounting group.

The consolidated financial statements are prepared in accordance with IFRS and take into account the standard accounting and measurement requirements set out in the Group Manual.

Financial instruments measured at fair value at LBBW (Bank and Group) are assessed either on the basis of quoted prices for active markets (stock exchanges, brokers, price service agencies etc.) or on the basis of recognized and standard measurement methods using publicly available input data (e.g. yield curves, volatilities, spreads). In cases where not all the input parameters can be observed directly on the market, fair values are calculated using realistic assumptions, based on market conditions. The prices used for accounting purposes are checked independently of trading and validated by the separate organizational unit, Independent Price Verification, within Group Risk Control.

Higher-level control and coordination of the interdivisional process of preparing the LBBW management report are carried out centrally by the Group Communication division under the overall responsibility of the Finance division. The preparation process is integrated in the timetables and workflows for the half-yearly and annual financial statements. Applying the principle of dual control, the sections of the management report are produced separately by the specialist divisions and approved by the divisional managers. The Group Communication division (internal records office) checks the content of the entire management report for consistency.

Information and communication.

The risk principles of the LBBW Group, the organizational structure and procedures and the processes of the accounting-related ICS are set out in manuals and guidelines (e.g. accounting guidelines, operating procedures, specialist concepts etc.), which are, in general, regularly adjusted to current external and internal developments and published on the intranet of LBBW (Bank). This also applies to the Group Manual, which includes the measurement and accounting rules for preparing the consolidated financial statements. Taking the current IFRS rules into account, it is updated regularly and forwarded to the Group companies.

The Finance Principles & NPP group identifies and evaluates all legal changes that have an impact on the accounting process. It informs the specialist divisions and subsidiaries affected and initiates implementation.

New types of products and product variants are examined in detail in the Bank's New Product Process and in the Group companies with regard to their treatment under accounting law. This process also defines the structures and embedded derivatives for each product type. In the case of new types of products, the correct mapping, analysis and recognition of transaction types is also checked in a test phase. If systems and/or processes of the Group head office are required for Group companies' new product types, the Finance Principles & NPP group determines how they should be treated under accounting law.

Group Accounting prepares the figures for the consolidated financial statements using standardized consolidation software on the basis of the information provided by the companies included in the consolidated financial statements. The consistency of the data provided by the Group companies is inspected by checking rules implemented and by comprehensive validation. The notes to the consolidated financial statements are also prepared using standardized software. Group Accounting guarantees the completeness and accuracy of the relevant explanatory notes on the basis of the information provided by the Group companies.

Financial reports created in connection with accounting and sent to external parties or readers are checked for consistency by an internal records office before being sent.

Furthermore, the Board of Managing Directors has issued rules stipulating that it must be informed immediately if doubts arise in individual divisions or Group companies as to proper business organization (»ad hoc reporting requirement«). The same also applies to accounting. If information is significant in terms of risk aspects, the Group Board of Managing Directors must also forward it to the Risk Committee of the Supervisory Board.

Monitoring.

LBBW's current ICS is characterized by decentralized responsibility of the specialist divisions for essential accounting-relevant processes.

The effectiveness and suitability of the accounting-related internal control system are regularly monitored. An ICS records office has been established in the Finance division for this purpose. This ensures that potential improvements are identified and processes are adjusted accordingly where required. Monitoring is conducted continuously while the consolidated financial statements/half-yearly financial statements are being prepared.

Bilateral and multilateral coordination talks are held at regular intervals between the employees involved in the preparation of the annual and consolidated financial statements and the management report, to discuss and analyze any problems that arise. Measures are derived and incorporated into ongoing processes.

Both the Audit Committee of the Supervisory Board and Group Auditing serve as senior monitoring bodies. Group Auditing is responsible for process-independent monitoring of business operations and, as such, is an instrument used by the entire management. The Audit Committee, as a committee of the Supervisory Board, deals with the analysis and preparation of the findings of the audit of the annual accounts and informs the Supervisory Board of these activities.

Outlook.

Anticipated economic performance.

The upturn is expected to continue in 2018. Many of the common leading indicators are at or near their historical highs. The ifo business climate index reached its historical all-time high in November 2017 at 117.6 index points, reaffirming this figure in January 2018. The Economic Sentiment Indicator for the euro area reached 116.0 points in December 2017, a high point not seen since 2000. Given this good situation and the fact that the ECB's monetary policy is still expansionary - its monthly bond purchases of EUR 30 billion will be continued at least until September 2018, while the key interest rates have remained unchanged - we expect a similar economic momentum in 2018. The euro area's GDP should grow by 2.3%, Germany is also expected to see a rise of 2.3%. GDP growth in the USA should come to 2.4%. Inflation is anticipated roughly at the previous year's level in this setting. For 2018 we expect an inflation rate of 1.8% in Germany, 1.5% in the euro area and 2.2% in the USA. Although energy prices should see slower growth than in the previous year, given the rising capacity utilization, the improved economy will likely bring about pressure on wages and prices. In this setting, the Federal Reserve in the USA is expected to hike its key interest rates by another 75 bp in 2018. But the monetary policy reaction is, all told, unlikely to be enough to slow the growth trend, especially since fiscal policy in the USA is having a substantially expansionary effect with the recently enacted tax reform. By contrast, China's GDP growth is expected to slow down from 6.8% to 6.3%. The high level of debt held by private households and companies as well as the overcapacities within industry suggest that the pace of growth seen over the last few years cannot quite be maintained.

The downside risks have eased up from the previous year. In the euro area, the political risks in terms of keeping the EU and the monetary union together have declined. The only exception is Italy's election on 4 March, which might prove to be a source of major tensions. The uncertainty in the USA after a year with Trump as president is turning out to be manageable for the most part. The country is at least not showing any signs of engaging in a »trade war« with either the EU or China. The United Kingdom's exit from the EU is still straining the European mainland's economic expectations. Yet the ongoing negotiations over the terms of the UK's withdrawal from the EU lead some to believe an agreement will be reached, possibly with transition periods in the areas where a settlement is not made before the UK's official departure in March 2019.

On the stock markets, the upbeat sentiment and good macroeconomic environment should mean continued gains. We are forecasting 14 000 points for the DAX by the end of 2018. The EUR's rally versus the USD, with rates of up to USD 1.25 per EUR, should see a reversal in the direction of a weaker EUR. We anticipate a rate of USD 1.12 per EUR for the end of 2018. In this setting, moderate losses on the bond market are likely. The yields on 10-year Bunds should come to 1.00% at the end of 2018. In the USA we expect to see the yield on 10-year US Treasuries climb to 2.80%.

Industry and competitive situation.

From LBBW's point of view, low and at times negative interest rates in the euro area, strong competition and pressure on margins, as well as the regulatory and technology-driven change will continue to pose the central challenges for German banks in 2018. On the other hand, the robust underlying economic conditions in Germany combined with the boost in loan demand that can be expected will likely continue to support the industry. There is also a prospect of moderate increases in interest rates in the USA together with, in these parts, the expectation of a less expansionary monetary policy on the part of the ECB. In addition, nearly all the banks have taken initiatives to improve cost efficiency. This will lead to a further reduction in the number of bank branches in Germany, among other things. The numerous uncertainties that currently define the international political environment could generate particular challenges and burdens for the industry.

Meanwhile, the reform of the regulatory framework for the banking sector has advanced quite far, but is yet to be concluded. The Basel III reforms for example are being adopted, although these still have yet to be transposed into European law as a next step. The recent decisions on the final shape that the restructuring and resolution regulations will take at an EU level will likely mean additional legislative changes in Germany. A consensus on a single European deposit insurance scheme, as the third pillar of the European banking union, is still pending. Regulation together with changes to supervisory practices is set to remain a key element of uncertainty and a burden for the banking industry. The increasing regulation of business undertakings in particular by the supervisory authorities and the legislator, e.g. to enhance market transparency and consumer protection, is expected to continue to put pressure on the banks' earnings and business models.

Another key element of uncertainty for the industry is technological change, which is likely to accelerate. The increased digitalization of the banking business is expected to require ongoing investment, especially in IT. It is impossible at present to adequately assess the extent to which technology-driven financial innovations could change the market and competitive structures in the German banking market. This should present the individual banks with both opportunities and risks.

Company forecast.

General conditions.

The following statements on LBBW's company forecast are based on the planning produced at the end of 2017. The planning already takes into consideration the financial reporting framework of IFRS 9, applicable starting in 2018. Hence, the financial reporting framework of IFRS 9 also forms the basis for the forecast, as do the adjustments to the structure of the income statement made necessary by the implementation of IFRS 9 and the adjustments to the performance indicators of return on equity[1] and cost/income ratio[2] made in the course of this.

A low, albeit slightly rising interest level is once again assumed for the euro area in the forecast period. A positive economic performance is anticipated in Germany and the Eurozone. Despite the considerable progress made in reforming the regulatory framework for banks, regulation remains a material uncertainty and strain factor. In particular, the increasing regulation of business undertakings, for example to enhance market transparency and consumer protection, should continue putting pressure on the banks' earnings and business models. The growing degree of digitalization will also continue to require good flexibility and additional investment.

Outlook for LBBW.

LBBW sees its **customer-oriented business model**, firm roots in the core markets, solid capitalization and adequate risk profile as a stable foundation for the development going forward. In order to meet its own requirements regarding the quality of its offering and customer-orientation as a universal mid-sized bank, LBBW is focusing on its **four strategic thrusts**: business focus, sustainability, digitalization and agility. With its **business focus** strategic thrust, LBBW aims to grow by expanding its already strong customer base. A wide variety of measures aimed at customers and products and corresponding investments in new markets, product developments and infrastructure are expected to contribute to the targeted development. The strategic thrusts of **sustainability** and **digitalization** should also add to this through the expansion of sustainable products and services as well as the use of innovative technological solutions along with the corresponding cost cuts and safeguarding of earnings. In terms of digitalization, LBBW also aims to continue push ahead with the modernization of its IT architecture. The strategic thrust of **agility** should help LBBW take advantage of the opportunities arising as it adapts to rapidly changing economic developments, customer requirements, market trends and even employees' needs.

The further implementation of these four strategic thrusts will require some initial investment in the 2018 financial year. Despite the various challenges posed by the economic performance, customer requirements, market trends as well as society and the environment, LBBW believes itself to be in a good position with its stable basis and its four strategic thrusts.

The most significant financial performance indicators for **LBBW** will likely develop as follows in the 2018 financial year at the Group level, in comparison with the previous year:

1 Return on equity (Group): (annualized) consolidated profit/loss before tax/average reported equity; equity adjusted for unappropriated profit in the current period under review; return on equity (segments): (annualized) profit/loss before tax/maximum of the planned average tied-up equity and average tied-up equity of the current period under review
2 Cost/income ratio: (administrative expenses + other expenses)/(net interest income + net fee and commission income + remeasurement and disposal gains or losses + other operating income/expenses); income adjusted for impairments on loans and securities

LBBW expects to see customer demand pick up in 2018 and, as a result of this, the volume in the core business fields should expand measurably. **Risk weighted assets** in accordance with CRR/CRD IV, however, are only expected to grow moderately due to the good quality of the new business. As a result, the common equity Tier 1 capital ratio and the total capital ratio (each fully loaded) should remain only marginally below the solid figure from the end of 2017 despite the equity effects from the switch to IFRS 9 being taken into consideration, which will constitute a strain at around 0.25 percentage points.

The **common equity Tier 1 capital ratio** will remain well above the CRR/CRD IV minimum requirements. The new bank-specific requirement of the European Central Bank, revised as part of the **SREP** (Supervisory Review and Evaluation Process) and valid from 2018, which totals 8.80%, is also expected to be considerably exceeded at the end of 2018. This ratio includes the Pillar 2 capital requirement as well as the common equity Tier 1 capital to be held as a capital conservation buffer in accordance with Section 10c of the German Banking Act (KWG) and as a capital buffer in accordance with Section 10g KWG for other systemically important institutions. It should be exceeded to an exceptional degree even when considering the countercyclical capital buffer to be held additionally in accordance with Section 10d KWG for a marginal portion of foreign receivables as well as the availability of additional common equity Tier 1 capital expected by ECB supervisory authorities in the Pillar 2 Guidance capital recommendation. In addition to the regulatory capital requirements, LBBW also focuses on economic capital management. Because the **utilization of the aggregate risk cover** is expected to remain nearly unchanged from the previous year (2017: 41.9%), LBBW is able to maintain its very comfortable risk-bearing capacity. This should ensure solid capitalization at all times.

Total assets in 2017, at approximately EUR 238 billion, fell short of the previous year. LBBW expects to see its consolidated total assets rise moderately in 2018 due to the expected significant expansion of the core business fields. The **leverage ratio**, a regulatory figure independent of risk, is likely to remain the same year on year by the end of 2018 (2017: 4.6%) and thus remain well in excess of the minimum 3% stipulated by the Basel Committee. LBBW is also focusing on its **liquidity coverage ratio**, which has been gradually introduced. By year-end, the ratio should be far above the minimum requirement of 100% applicable from 2018. Starting in 2018, the focus of LBBW's steering activities will be increasingly directed at the **net stable funding ratio** for securing the structural liquidity for the medium to long term. The ratio should marginally exceed the future minimum of 100% as at year-end 2018.

For the past 2017 financial year, LBBW is showing a very positive **consolidated profit/loss before tax** at EUR 515 million. LBBW believes this figure will increase perceptibly in 2018, largely as a result of the gain in net interest income and net fee and commission income in the core business fields. The early repayment of the Sealink loan in the course of an asset sale will also help eliminate strain factors in the income statement. **Allowances for losses on loans and advances** in 2017 were at the level planned, although this was low due to the good quality of the portfolio. In addition to the strain factors from IFRS 9 on account of the switch to the lifetime expected loss, LBBW also believes that allowances for losses on loans and advances will continue to normalize and thus rise substantially in 2018.

Given the considerable restructuring efforts in the last few years, with a corresponding strain on the income statement, administrative expenses in 2018 should fall short of the previous year's level despite the high future-oriented investments still being made, especially in IT, and the regulatory initiatives being carried out. Despite the ongoing need for capital spending on IT, the **cost/income ratio** should improve marginally in 2018 with the further growth targeted and the resultant increase in sales that is expected. The **return on equity** should rise noticeably year-on-year on account of the expected earnings performance.

Key **risks** to LBBW's forecast development in the 2018 financial year remain the high competitive and margin pressure seen at the moment as well as the technology-driven change resulting from the progress made in digitalization and an unexpected performance of the market parameters underlying the planning. Should interest rates be kept low and some even remain negative for a prolonged period, for example, this could lead to lower earnings than planned. A phase in which the EUR is strong against the USD for longer than expected could have a negative impact on LBBW's export-oriented customers. Tighter regulatory and legal provisions could also have a negative impact on the forecast performance of LBBW's costs and earnings. In particular, possible requirements relating to the business model and deriving from the regulation of business activities, for example to enhance market transparency and consumer protection (conduct regulation) could cause earnings to drop below the forecast. Moreover, because of its membership of the bank-related guarantee fund of the Landesbanks and due to the »European bank levy«, special payments may also be demanded of LBBW, not least in the event of indemnity and support measures, which could lead to unforeseen strain on LBBW's asset, financial, earnings and liquidity situation.
Effects from geopolitical risks on LBBW's planned performance have abated compared to the previous year. The negotiations over the UK's withdrawal from the EU, which still have yet to be completed, could also yield results that have negative consequences for LBBW's customers and result in higher allowances for losses on loans and advances than planned.

However, the 2018 financial year also presents LBBW with **opportunities** that could lead to a higher-than-planned profit. Should the economic environment for LBBW's customers turn out better than assumed, they also stand to benefit. This could lead to both lower allowances for losses on loans and advances than planned and lower risk weighted assets. An unexpected change in the Bank's competitive environment could prompt a faster expansion of the customer business. A faster-than-expected rise in interest rates could also have a positive influence on the spreads and margins, and hence on profit.

In the course of refining its business focus, LBBW restructured its segments as at 1 January 2018. For the most part, the Corporates segment has now been broken up into the new segments of Corporate Customers and Real Estate/Project Finance. The basis for bundling the real estate and project finance businesses into the Real Estate/Project Finance segment is the resumption of project finance activities in particular. The business with corporate customers is almost entirely pooled under the Corporate Customers segment and is being expanded further. Private customers as well as the joint account and promotional loan business with savings banks, activities still managed under the name Retail/Savings Banks at the end of 2017, can be found in the Private Customers/Savings Banks segment from 2018. The former Credit Investment segment is being dissolved due to the nearly complete sale of Sealink assets by the manager in 2017 and will be merged into Corporate Items. Additional information on the business focus and segmentation can also be found in the chapter Business model of the LBBW Group.

LBBW is forecasting the following developments for the segments in the 2018 financial year.

Earnings in the **Corporate Customers segment** at the end of 2018 should fall slightly short of the previous year. This was marked, among other things, by non-recurring positive effects from the disposal of equity investments. For 2018, LBBW anticipates not only stable operating income, but also additional strain from administrative expenses incurred from the modernization of the IT landscape and from tapping into growth markets. LBBW assumes a moderate decline in allowances for losses on loans and advances with a strain of EUR –98 million in 2017. Given that it plans to expand its funding business, LBBW anticipates a marginal rise in total assets and a slight increase in risk weighted assets in accordance with CRR/CRD IV. The cost/income ratio should increase slightly due to the administrative expense and income trends described, while the return on equity is expected to drop slightly.

As for the **Real Estate/Project Finance segment**, LBBW anticipates a profit before tax perceptibly below the previous year's level in 2018. This figure in 2017 was driven by one-off proceeds and a low need for allowances for losses on loans and advances. Starting from the very low level in 2017, allowances for losses on loans and advances should climb to a normalized figure in spite of the focus on low-risk business. LBBW also believes its anticipated business expansion will help boost its income to a moderate extent and measurably increase its administrative expenses, especially by resuming project financing in a focused way and by pooling real estate and project finance into one independent business segment. This should also entail a perceptible rise in risk weighted assets as well as the segment's total assets as at the end of 2018. The cost/income ratio is expected to remain at the previous year's level, while the return on equity should rise slightly.

Profit before tax of the **Capital Markets Business** segment should remain slightly below the 2017 level in 2018. Although further earnings growth is expected in the operating customer business, LBBW is not likely to repeat the earnings from treasury activities, which was marked by extraordinary effects in 2017. The consistent focus on the customer is due to be further pushed ahead in 2018, which should make it possible for LBBW to expand its market share and improve its market penetration. Depending on the customers' needs, it plans to selectively adjust and strengthen its project portfolio and broaden its use of more efficient distribution channels, such as electronic trading platforms, in order to achieve the profit growth planned for the operating customer business. This should also keep the cost/income ratio almost at the previous year's level. Given the growth of its customer business, LBBW plans to noticeably increase its risk weighted assets pursuant to CRR/CRD IV in 2018 and to moderately increase its total assets as at the end of 2018. LBBW is forecasting a noticeable rise in its return on equity as at year-end 2018.

In the **Private Customers/Savings Bank** segment, LBBW plans to further expand its business activities, especially with regard to financing. A change to its investment and refinancing structure for products with variable interest rates should help stabilize the falling income from deposits as seen in the past few years. After a negative profit contribution from the segment in 2017, which was also characterized by high investment, the 2018 result should be back in positive territory. New growth areas should help perceptibly boost the total assets and risk weighted assets pursuant to CRR/CRD IV. In addition to an improved return on equity, the segment's cost/income ratio should also improve moderately.

In its **annual financial statements according to the German Commercial Code (HGB)** for the full year of 2018, **LBBW (Bank)** anticipates a net profit/loss for the year well in excess of the previous year's figure. Essentially, this development is in line with the IFRS consolidated profit/loss before tax.

The Bank also anticipates a higher interest-related strain from allocations to pension provisions. In addition, the effect from IFRS 9 will not impact on allowances for losses on loans and advances.

LBBW sees its customer-oriented business model, firm roots in the core markets, solid capitalization and adequate risk profile as a stable foundation for its development going forward. In order to meet its own high requirements regarding the quality of its offering and customer-orientation as a universal mid-sized bank, LBBW is focusing on its four strategic thrusts: business focus, agility, digitalization and sustainability. The general conditions are challenging and changing rapidly, and 2018 will again be marked by an attempt to adapt to these conditions every bit as rapidly. Nevertheless, LBBW will continue to focus on expanding its customer business. Not least, this will also benefit its broad customer base, which is principally expected to be expanded regionally.

Explanatory notes on the annual financial statements of LBBW (Bank).

Results of operations, net assets and financial position.

Business development in 2017.

The management of the LBBW Group is generally guided by the IFRS key figures. As a significant part of the Group, LBBW (Bank) is also managed in accordance with these figures.

Stable general economic conditions in Germany formed the basis of a successful business performance for LBBW (Bank) in 2017. Particular challenges were a tough market environment with continuously low interest rates and intense competition within the banking industry. The year 2017 was marked by advances in digitalization, with greater need for investment and a further rise in regulatory requirements. Given its good position within the regional core markets in the past financial year, LBBW (Bank) reported a solid result overall.

Operating income/expenses before allowances for losses on loans and advances/remeasurement gain or loss came to EUR 438 million, thus falling significantly short of the EUR 596 million from the previous year. This was largely owed to a rise in administrative expenses, which were lower in the previous year due to an extraordinary effect from a statutory adjustment to the discount rate for pension provisions. Net interest income was down slightly; this had been affected by more extensive early termination fees in the previous year. Other operating income/expenses were also lower, thus impacting earnings. A lower guarantee commission for the State of Baden-Württemberg meant a moderate boost for the net fee and commission income of LBBW (Bank). Income/expenses from financial transactions in the trading portfolio increased slightly. A significantly higher net expense from allowances for losses on loans and advances and a remeasurement loss on securities played a major role in the drop in the allowances for losses on loans and advances/remeasurement gain or loss item. The marked decline in the allocation for the fund for general banking risks pursuant to Section 340g HGB can be traced back to an extraordinary effect in the year prior. This was connected to the statutory adjustment of the discount rate for pension provisions, which offered only temporary relief for the previous year's administrative expenses. After taking into account the extraordinary result, which was characterized by lower restructuring expenses, as well as perceptibly lower interest on silent partners' contributions and the tax expense, net profit/loss before profit appropriation came to EUR 192 million (previous year: EUR 219 million).

Net profit/loss for the year before tax thus undershot the **target figure** for the 2017 financial year only slightly, which was especially owed to the allocation for the fund for general banking risks pursuant to Section 340g HGB. Operating income before allowances for losses on loans and advances and remeasurement gain or loss, on the other hand, was far above the target figure, for the most part as a result of lower administrative expenses and higher other operating income/expenses.

The **volume of business** at the end of 2017 rose only marginally year-on-year, namely by EUR 1.1 billion to EUR 255.9 billion. It is worth noting here that the repayment of the existing loans worth EUR 4.3 billion in connection with the sale of the Sealink portfolio and the divestment of the guarantee bond totaling EUR 4.3 billion due to the dissolution of the guarantee structure led to a decline in total assets. As in the previous year, the business performance was shaped by the strategic realignment of the capital markets business, following which business for liquidity management purposes is carried out only in the non-trading portfolio. This strategy was also carried over to the international branches over the course of 2017, thus leading to shifts between individual balance-sheet items. This impacted on the balance-sheet items trading portfolio (trading assets and trading liabilities) and loans and advances to customers and banks, and deposits from customers and banks.

The **financial position** of LBBW (Bank) throughout the entire year under review was satisfactory at all times due to the good liquidity. The structural funding of LBBW (Bank) is supported by stable sales of a wide array of funding products thanks to the broad and well-established customer base. Corporate customers and institutional investors, both domestic and international, provided a sustained contribution to the diversification of LBBW's funding. The Bank was always able to obtain funding on the market on the requisite scale. Last year, in addition to private placements, successful benchmark issues were placed on the market in the form of covered bonds and uncollateralized bearer debentures, including the first green bond in a benchmark format.

The **liquidity ratio** as per LiqV totaled 1.92 as at 31 December 2017 (previous year: 1.50) and therefore significantly exceeded the minimum requirement of 1.0. Full implementation of the LCR figure means that CRR institutions will no longer be required to report their LiqV figure in the future.

Results of operations.

Performance figures:

	1 Jan. 2017 – 31 Dec. 2017 EUR million	1 Jan. 2016 – 31 Dec. 2016 EUR million	Change EUR million	in %
Net interest income	1 398	1 448	– 50	– 3.5
of which current hybrid servicing	– 13	– 14	1	– 5.4
Net fee and commission income	368	341	27	7.9
Net fee and commission income without guarantee commission	429	434	– 5	– 1.1
Guarantee commission for the State of Baden-Württemberg	– 61	– 93	32	– 34.1
Total operating income/expenses from the trading portfolio	291	272	19	7.1
Administrative expenses[1]	– 1 683	– 1 575	– 108	6.8
Other operating income/expenses	64	110	– 46	– 41.5
Operating income before allowances for losses on loans and advances/ remeasurement gain or loss	**438**	**596**	**– 157**	**– 26.4**
Allowances for losses on loans and advances/remeasurement gain or loss	– 44	36	– 80	-
Fund for general banking risks	– 31	– 207	176	– 85.3
Operating income/expenses (result from ordinary business activities)	**364**	**425**	**– 61**	**– 14.3**
Extraordinary result	– 65	– 105	40	– 38.2
Partial profit transfer	– 44	– 51	7	– 12.9
of which current hybrid servicing	– 41	– 51	10	– 20.3
Net profit/loss for the year before tax	**255**	**269**	**– 14**	**– 5.2**
Income taxes	– 63	– 50	– 13	25.5
Net profit/loss for the year after tax	**192**	**219**	**– 27**	**– 12.2**
Unappropriated profit/loss	**192**	**219**	**– 27**	**– 12.2**

Rounding differences may occur in this and subsequent tables for computational reasons.
1 In addition to staff costs and operating expenses, this item also includes amortization and write-downs of intangible assets and depreciation and write-downs of property and equipment.

Net interest income at LBBW (Bank) fell slightly in the financial year under review by EUR – 50 million to EUR 1 398 million. This was primarily attributable to lower early termination fees from the premature repayment of loans. The ECB's expansive monetary policy with a historically low or negative level of interest rates also continued to pose a strain, which was reflected in particular in lower profit contributions from LBBW's investment of its own funds. In the lending business, lending to customers was expanded in individual business areas. Volume increases were reported among SMEs and large corporate customers in particular.

Net fee and commission income again improved year on year, rising by EUR 27 million to EUR 368 million (previous year: EUR 341 million). The main reason for this was a decline in the guarantee commission to be paid to the State of Baden-Württemberg in connection with the funding of loans to the special-purpose entity Sealink. These expenditures fell by EUR 32 million to EUR – 61 million and will be omitted in the future with the nearly complete sale of the Sealink portfolio by the manager. Net fee and commission income without guarantee commission, on the other hand, at EUR 429 million remained nearly at the previous year's figure of EUR 434 million. Slight increases in the custody business were pitted against lower income from securities products. Transaction-related fees and marginal growth of the card business translated into a better result in payment transactions. Net fee and commission income from loans and guarantees also put up a positive performance on account of factors including higher earnings in the surety business. Earnings from asset management and the brokerage business got a marginal boost, whereas other net fee and commission income declined particularly as a result of non-periodic effects.

Total operating income/expenses from the trading portfolio improved slightly year on year by EUR 19 million to EUR 291 million (previous year: EUR 272 million). Given the good demand for capital market solutions, especially investment products for retail customers, the trading book result was improved over the previous year. The changes to the valuation discounts for trading portfolios also had a positive impact on earnings. The main reason for this was lower credit valuation adjustments, which fell by EUR 35 million. Considering the development of the trading portfolios and the relevant market parameters, the risk discounts that had to be set aside for statutory reasons in 2017 declined by EUR –8 million to EUR 21 million year on year. The increase in gains/losses on financial instruments in the trading portfolio meant a marginally higher allocation of the extraordinary item for general banking risks pursuant to Section 340e (4) HGB in conjunction with Section 340g HGB by EUR 32 million in the period under review (previous year: EUR 31 million) to EUR 135 million. Pursuant to Section 340e (4) no. 4 HGB, the allocation was increased to such an extent that the extraordinary item now amounts to over 50% of the average net income of the last five years.

Administrative expenses rose slightly year on year (EUR –1 575 million) by EUR –108 million to EUR –1 683 million. This was owed in particular to an extraordinary effect in the previous year in connection with the conversion relating to the discounting of pension provisions. Pursuant to the new legal provision of Section 253 (2) HGB, the pension reserves in the 2016 financial year were discounted on the basis of a 10-year rather than a seven-year average discount rate for the first time. Staff costs therefore rose by EUR –97 million to EUR –866 million as at year-end 2017 despite countering effects from the reduction of the workforce. Other administrative expenses, on the other hand, declined marginally by EUR 12 million to EUR –716 million (previous year: EUR –728 million). A major portion of expenses related to the modernization of the IT architecture, for example the implementation of the new core banking system and other measures aimed at stronger digitalization. Costs were lowered as a result of savings measures that translated into lower spending on advisory services and work equipment. Amortization and write-downs of property and equipment and intangible assets came to EUR –101 million (previous year: EUR –79 million). The strong increase was attributable to higher write-downs on intangible assets, which were downstream from the previous years' investments. Lower depreciation of property and equipment was not able to offset this effect.

Other operating income/expenses declined by EUR –46 million to EUR 64 million (previous year: EUR 110 million), with opposing developments having taken place overall. Proceeds from the disposal of equity investments above all fell markedly after the sale of cellent AG and the buyback of VISA Europe Limited shares by US-based Visa Inc. had made a positive contribution to income in the year prior. In 2017, however, earnings from the disposal of real estate rose considerably, but were still unable to offset the drop in proceeds from the disposal of investments. In addition, higher net expenses were incurred from the allocations to provisions.

Allowances for losses on loans and advances and remeasurement gain or loss fell markedly overall year on year by EUR –80 million to EUR –44 million (previous year: EUR 36 million). A differentiated performance was recorded for the individual subitems:

- The **remeasurement gain or loss on securities, borrower's note loans and derivatives from the liquidity reserve** rose by EUR 104 million to EUR 135 million (previous year: EUR 31 million).

The positive result was principally attributable to effects from interest rate derivatives, which were unwound in connection with the sale of treasury securities portfolios and more than offset the negative effects from the sale of securities.

- The **remeasurement gain or loss on securities held as long-term investments** fell by EUR – 140 million to EUR – 105 million (previous year: EUR 35 million) and is largely due to the sale of treasury portfolios. This also includes a counter-effect from the divestment of interest rate derivatives in the remeasurement gain or loss on derivatives from the liquidity reserve.
- The **remeasurement gain or loss from equity investments and affiliates** improved by EUR 9 million to EUR – 16 million year on year (previous year: EUR – 24 million). Both the lower write-downs and higher write-ups contributed to this.
- **Gains/losses from the transfer of losses** rose by EUR 4 million to EUR – 1 million (previous year: EUR – 5 million).
- **Allowances for losses on loans and advances** as at the end of 2017 came to EUR – 57 million after a net figure of zero in the year prior. The higher figure reflects a normalization of the development, but this is still well below the long-term average. In accordance with the economic trend, this figure still illustrates the persistently high quality of LBBW's credit portfolio in its core markets.

The allocation to the fund for general banking risks pursuant to Section 340g HGB in 2017 helped neutralize a one-off effect in connection with the equity investment structure being simplified, in which hidden reserves were drawn upon, thus helping the company retain value. In the year prior, the allocation to the fund for general banking risks pursuant to Section 340g had correlated with the effect of the conversion of the discount rate for pension provisions stipulated by law from an average rate of seven years to an average rate of ten years. Given that this only offered temporary relief and caused a strain later on, **funds for general banking risks** were also allocated in the 2016 financial year with the aim or retaining company value. The purpose here was to offset future burdens over time through reversals.

On balance, the **extraordinary result** improved by EUR 40 million to EUR – 65 million (previous year: EUR – 105 million). The conversion of the allocation of pension provisions pursuant to the Accounting Law Modernization Act (BilMoG) meant that the extraordinary expense of EUR – 26 million was held constant from the previous year. In the past financial year, the net restructuring expense was cut by EUR 39 million to EUR – 40 million (previous year: EUR – 79 million). The amount primarily relates to provisions being set aside for restructuring of back-office units relevant to the loan business and to programs aimed at improving the efficiency of other operating procedures.

Net profit/loss before tax for the 2017 financial year amounted to EUR 255 million overall (previous year: EUR 269 million).

The income tax expense stood at EUR – 63 million for the 2017 financial year (previous year: EUR – 50 million). Current income taxes fell by EUR 9 million in the 2017 financial year to EUR – 50 million. On the other hand, tax revenue for earlier years rose significantly from EUR – 23 million to EUR – 13 million (previous year: EUR 10 million).

Net profit/loss for the year after tax declined by EUR 27 million to EUR 192 million (previous year: EUR 219 million).

Net assets and financial position.

Assets	31 Dec. 2017 EUR million	31 Dec. 2016 EUR million	Change EUR million	in %
Cash and cash equivalents	22 722	13 524	9 198	68.0
Loans and advances to banks	45 522	39 116	6 407	16.4
Loans and advances to customers	102 886	107 214	- 4 328	- 4.0
Debentures and other fixed-income securities	22 462	25 406	- 2 943	- 11.6
Equities and other non-fixed-income securities	108	117	- 9	- 8.0
Trading portfolio	21 429	28 945	- 7 516	- 26.0
Equity investments	631	564	67	11.9
Shares in affiliates	1 667	1 802	- 136	- 7.5
Trust assets	433	531	- 97	- 18.4
Intangible assets	221	228	- 7	- 3.1
Property and equipment	850	987	- 137	- 13.9
Other assets	1 288	919	369	40.2
Deferred items	2 376	2 353	23	1.0
Total assets	**222 596**	**221 706**	**890**	**0.4**

Equity and liabilities	31 Dec. 2017 EUR million	31 Dec. 2016 EUR million	Change EUR million	in %
Deposits from banks	58 813	44 024	14 789	33.6
Deposits from customers	79 567	71 194	8 373	11.8
Securitized liabilities	43 910	34 840	9 070	26.0
Trading portfolio	14 036	45 148	- 31 112	- 68.9
Trust liabilities	433	531	- 97	- 18.4
Other liabilities	839	605	234	38.6
Deferred items	2 619	2 900	- 280	- 9.7
Provisions	2 542	2 364	178	7.5
Subordinated liabilities	4 328	4 481	- 152	- 3.4
Capital generated from profit-participation rights	229	247	- 18	- 7.3
Fund for general banking risks	852	789	63	8.0
Equity	14 427	14 583	- 156	- 1.1
Total equity and liabilities	**222 596**	**221 706**	**890**	**0.4**
Contingent liabilities	8 257	7 898	359	4.5
Other obligations	25 055	25 199	- 144	- 0.6
Business volume[1]	**255 908**	**254 803**	**1 105**	**0.4**

1 In addition to total assets, the business volume includes off-balance-sheet contingent liabilities and other obligations.

Total assets at the previous year's level.

Total assets at LBBW (Bank) as at the end of 2017 rose marginally by EUR 0.9 billion or 0.4% to EUR 222.6 billion compared with the previous year. The business volume of LBBW (Bank) grew in parallel by EUR 1.1 billion to EUR 255.9 billion, almost exclusively as a result of the rise in the balance sheet figures.

In the course of the strategic realignment of the capital markets business, new business for liquidity management purposes in Germany has been reported in the non-trading portfolio since the second half of 2016. The execution of this strategy was completed in the first half of 2017 and is now being put into practice at the branches in other countries. This meant clear changes from 31 December 2016 mainly to trading assets and trading liabilities as well as loans and advances to customers and banks, and deposits from customers and banks.

The favorable market environment led the manager to sell nearly the entire portfolio of the Sealink Funding special purpose entity, in which the securities of the former Sachsen LB were bundled, to international investors. The portfolio, which had originally amounted to EUR 17.3 billion, had been channeled into this special purpose entity before Sachsen LB was sold to LBBW in 2008. LBBW refinanced Sealink using a loan that in turn was secured via a guarantee by the State of Baden-Württemberg.

The nearly complete sale of the portfolio by the manager means that Sealink no longer poses a risk for the owners of LBBW (Bank), and that the last major legacy encumbrance from the financial markets crisis has thus been run off. This transaction voided the risk shield provided by the State of Baden-Württemberg, thus fully dissolving the shield established in 2009 without having made use of the guarantee.

Sustainability is one of the four strategic points of LBBW (Bank) on the road to greater growth and efficiency. To underscore the importance of sustainability, LBBW (Bank) is forging ahead with its series of successful green issues and, in 2017, issued its first own green bond[1]. The senior unsecured bond has a volume of EUR 750 million and a four-year term.

Lending.

At the end of the year under review **cash and cash equivalents** came to EUR 22.7 billion. The increase of EUR 9.2 billion was attributable almost exclusively to a high credit balance at central banks.

Loans and advances to banks as at 31 December 2017 increased by EUR 6.4 billion to EUR 45.5 billion. In connection with the ongoing realignment of liquidity management, overnight and term money rose by EUR 6.0 billion to EUR 7.1 billion. The repo business grew by EUR 2.5 billion, in particular as a result of the expansion of transactions with central counterparties and major international banks.

The portfolio of **loans and advances to customers**, in contrast, declined by EUR –4.3 billion and came to EUR 102.9 billion as at the current balance sheet date. The sale of the Sealink portfolio by the manager was a key component in reducing this figure. In the case of public-sector loans, this had an effect via the repayment of the guarantee financing loans to Sealink in the amount of EUR –1.2 billion, and in the case of the other loans, via the repayment of the junior loan to Sealink to the tune of EUR –3.1 billion.

Debentures and other fixed-income securities declined by EUR –2.9 billion to EUR 22.5 billion. This was mostly attributable to the divestiture of the GPBW GmbH & Co. KG guarantee bond worth EUR –4.3 billion in connection with the Sealink portfolio sale. The portfolio of money market instruments, on the other hand, grew by EUR 1.2 billion after the strategic realignment of the capital markets business.

1 Please refer to http://www.LBBW.de under Press > Press Releases for further information on this.

Trading assets fell compared with the previous year by EUR –7.5 billion to EUR 21.4 billion. In addition to the reduction of bank and customer-driven money market transactions by EUR –2.8 billion as a result of the strategic realignment of the capital markets business, this item saw a decline in securities transactions by EUR –1.8 billion. The fair values of interest rate derivatives also fell by EUR –1.2 billion.

Funding.

Compared to year-end 2016, **deposits from banks** increased by EUR 14.8 billion to EUR 58.8 billion. This was mainly as a result of the increase in overnight and term money, which was attributable to the realignment of liquidity management, among other things. Consequently, the volume of deposits from overnight and term money from banks rose sharply by EUR 16.8 billion to EUR 24.1 billion.

As at 31 December 2017 **deposits from customers** amounted to EUR 79.6 billion and were far above the previous year's figure, namely by EUR 8.4 billion. Current account liabilities in particular increased by EUR 7.0 billion. Contributions from overnight and term money rose by EUR 6.3 billion despite the withdrawal of funds deposited as cash collateral for the risk shield. This effect was also mainly due to the changes in liquidity management. On the other hand, funding with securities repurchase transactions dropped by EUR –2.9 billion.

The volume of **securitized liabilities** rose substantially by EUR 9.1 billion to EUR 43.9 billion. The Bank was able to refinance itself on a long-term basis on the capital market in 2017 thanks to LBBW's good reputation as an issuer on the bond market and its placement strength. New issues caused the volume of other debentures to rise by EUR 9.8 billion to EUR 27.5 billion. This was primarily attributed to two benchmark issues, including LBBW's first successful issue of a green bond with a volume of EUR 750 million.

Trading liabilities declined considerably by EUR –31.1 billion to EUR 14.0 billion. As with the assets side, this decline correlated to the previously described adjustments to liquidity management. This especially resulted in the marked EUR –25.3 billion drop in the volume of money market transactions. Securities repurchase transactions decreased by EUR –6.6 billion.

Equity.

At EUR 14.4 billion, the equity of LBBW (Bank) was in line with the level of the previous year (EUR 14.6 billion). Silent partners' contributions decreased by EUR –0.1 billion to EUR 1.0 billion.

Financial position.

LBBW (Bank) again aimed to have a balanced refinancing structure in the past financial year. Here the Group focused on ensuring a balanced structure in terms of the groups of products and investor groups used. The financial position of LBBW (Bank) throughout the entire reporting year was in good order on account of the good liquidity situation. LBBW (Bank) was always able to obtain funding on the market on the requisite scale. The liquidity indicator LiqV improved further to 1.92 as at the reporting date of 31 December 2017 (previous year: 1.50). This is the last time this figure will be indicated, as LiqV will no longer have to be reported due to the fact that a 100% LCR must be maintained for CRR banks starting 1 January 2018. As at 31 December 2017, LBBW (Bank) reported an LCR of 148.7%.

Non-financial statement.

Preliminary note.

The contents that follow contain the combined non-financial statement for the 2017 financial year of LBBW (Bank) and the LBBW Group within the meaning of sections 289b, 315b of the German Commercial Code (Handelsgesetzbuch - HGB).

LBBW provides comprehensive information on its sustained commitment in its annual Sustainability Report. This report is geared toward the requirements of the Global Reporting Initiative (GRI). In its non-financial statement, LBBW offers a condensed viewpoint on select topics also found in the LBBW Sustainability Report. While the statement follows the model of the GRI, it does not fully comply with the GRI standards.

Business model of LBBW.

Information on the LBBW Group's business model can be found on page 32 of the annual report.

Concepts and due diligence processes.

Principles and guidelines for implementing LBBW’s sustainability policy and goals.

The sustainability policy provides guidelines that form a framework for all sustainability activities at LBBW and forms the basis for integrating economic, ecological and social issues into our business activities as a whole. It encompasses LBBW’s guiding principles for sustainable development in the areas of strategy and management, customers, employees, business operations, social commitment and communication. The sustainability policy is in effect throughout the entire LBBW Group.

For purposes of implementing the sustainability policy, LBBW has defined the following overarching goals:

- We want to gradually implement sustainability as an integral part of our business policy. For this reason, we strive for an active focus on projects, products, and services with a positive impact on sustainability.
- We offer sustainable investment products to all customer groups and in all asset classes to the greatest extent possible. The goal is to increase the share of sustainable investments in all business areas – including in our own investment portfolio. In credit advisory and credit decision-making, we take into account sustainability risks and earning potential for customers and the

Bank. We cultivate a fair, and respectful relationship with our customers based on trust, ensure data protection and transparency, and provide high-quality advice.

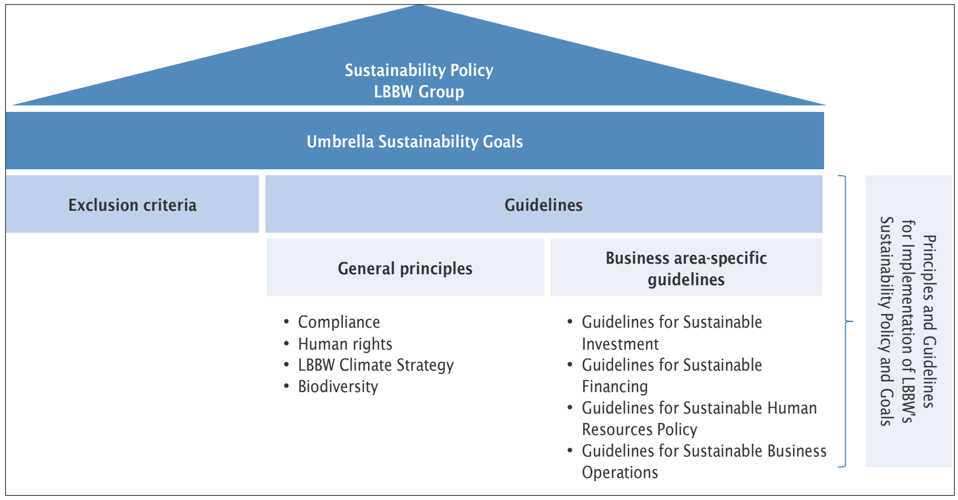
- We promote the health and performance of our employees with specific measures for this purpose. We ensure a good work-life balance, and promote diversity and equal opportunity within the company. We intend to maintain and further raise the high education and training level in our company.
- We will further optimize the use of resources within our organization. Our efforts to reduce the CO_2 emissions generated by our business focus on energy usage and business-related travel. We apply sustainability criteria in the selection of products and service providers when procuring materials and awarding contracts.
- Beyond providing our banking services, we want to actively contribute to adding value to society. To this end, we are active as a donor and sponsor. In the regions in which we do business, we support education initiatives and a variety of social projects.
- We keep our stakeholders informed and engage in a constructive dialog with them.

The overarching goals are broken down into individual targets and specific measures, and put into operation in the annual sustainability program.

Examples from the 2017 Sustainability Program.

Measure	Date	Implementation status
Development of a guideline on how to deal with financing for coal extraction and coal-fired power plants	12/2017	The Board of Managing Directors in July 2017 established a guideline on how to deal with the financing of coal extraction and coal-fired power plants. This was communicated both internally and externally in August 2017.
Re-application for certification of the LBBW Nachhaltigkeit Aktien and LBBW Nachhaltigkeit Renten sustainable retail investment funds and the LBBW Global Warming sustainable climate change fund to carry the FNG transparency logo for retail SRI funds.	12/2017	In November 2017, Forum Nachhaltige Geldanlagen awarded the two retail investment funds LBBW Nachhaltigkeit Aktien and LBBW Nachhaltigkeit Renten two stars, while LBBW Global Warming received one star.
Offer of resilience* workshops for employees and managers. The goal is to provide general information about resilience and promote the personal resilience of participants. * The term resilience here relates to mental resilience.	12/2017	Twelve workshops on the topic of resilience were held in various groups and departments at LBBW in 2017.

The »Principles and guidelines for implementing LBBW's sustainability policy and goals« serve as concrete guidance when it comes to performing day-to-day activities. In addition to the »sustainability guidelines«, they provide concrete exclusion criteria for individual business ventures and overarching principles such as compliance, human rights and biodiversity. The LBBW climate strategy is also integrated as an overarching principle.



Management's involvement.

LBBW ensures compliance with the sustainability policy through consistent application of a sustainability management system, which covers all divisions and is being implemented in a multi-stage process throughout the company. At the highest level, LBBW's Board of Managing Directors is responsible for managing the Group sustainably and for complying with its sustainability policy.

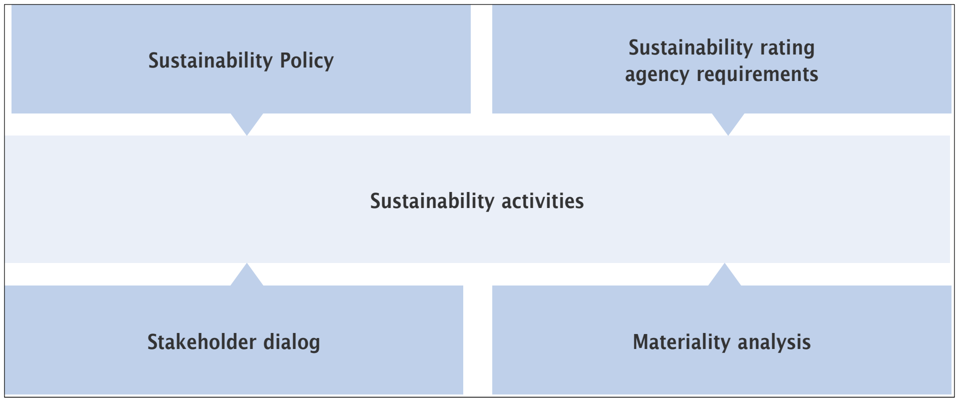
Once a year, environmental/sustainability management at LBBW is evaluated by top-level management (management review in accordance with ISO 14001). Key issues are presented to the Board of Managing Directors for information or decision-making purposes.

The Sustainability Committee is the communications bridge between the Board of Managing Directors and the specialist divisions. This body consolidates and drives the shaping of opinions within the company concerning strategic sustainability issues and prepares information to enable the Board of Managing Directors to make decisions. A member of the Board of Managing Directors of BW-Bank heads the Sustainability Committee. Members of the Committee are division heads (2nd management level) with responsibility for sustainability issues and the managing directors of material subsidiaries.

Materiality analysis.

LBBW classifies the potential effects of its business activities on its sustainability balance sheet as »slight«, »average«, or »substantial« and bases this on the materiality of the individual issues to its business model and sustainability performance.

Aside from the requirements set by sustainability rating agencies, the expectations of stakeholders as well as international sustainability standards and LBBW's sustainability policy all play a material role. The company has defined the respective sustainability measures particularly in areas that have been identified to have a substantial impact on the LBBW sustainability balance.



Some of these key areas are:

- sustainability standards in the lending business and financing with a sustainable focus
- sustainability standards in the investment business and sustainable investment products
- product responsibility/consumer protection
- stakeholder dialog

LBBW does not go into greater detail regarding the »use of resources and CO_2 emissions« in its non-financial statement because these are not deemed to have a substantial effect on LBBW's sustainability balance. It does, however, report on this in more detail in the LBBW sustainability report. This is based on the Bank's environmental management system, which is certified in accordance with ISO 14001 and EMAS. The EMAS regulation calls for this information to be published in the form of an environmental statement, which LBBW has integrated into its sustainability report.

An internal workshop was held in 2014 to direct the focus of sustainability activities even more toward the central topics. The main objective was finding out how future global changes will affect LBBW and what the stakeholders expect of LBBW in this regard.

The company delved deeper in 2015 and 2016 and further analyzed the results of the workshop in several rounds of discussions with retail and private banking customers. In 2017, LBBW also carried out a dialog with corporate customers and surveyed the Bank's institutional customers. As a next step, LBBW will incorporate other stakeholder groups into the analysis in order to evaluate the measures and gradually optimize its activities.

Sustainable investment products.

LBBW actively encourages this interest in sustainable investments and raises public awareness of the concept of sustainability at its in-house and external events. The investment services offered are geared toward the »sustainability guidelines« with the aim of avoiding risks that relate to sustainability and taking advantage of any relevant opportunities. LBBW's goal is ultimately to support its customers to the greatest extent possible when it comes to investing their assets in a responsible, ecological and ethical manner and to prove again and again that financial returns can be combined with value creation for the benefit of society and the environment.

LBBW offers retail and institutional customers (e.g., insurance companies, investment companies, foundations and church organizations) an extensive portfolio of sustainable investment products. The portfolio is geared toward sustainability criteria through voluntary commitments, among other things.

By signing the United Nations' »Principles for Responsible Investment« (UN PRI), we agree to increasingly incorporate aspects of our responsibility for the environment and society as well as corporate governance (environmental, social and corporate governance (ESG)) into analysis and decision-making processes in our investment activities.

LBBW has implemented the following measures to date:

- In 2011, sustainability criteria were defined for the investment of LBBW's free equity that is not tied up. These criteria were revised in 2016 and are now being applied to considerably more of LBBW's own investment portfolio. The exclusion criteria applicable to all new investments include violations at a company level of labor laws and human rights. Moreover, we do not invest in bonds issued by authoritarian regimes. The review is conducted by the sustainability rating agency oekom research AG. As at 31 December 2017, EUR 22.9 billion in bonds, covered bonds, and borrower's note loans were subject to review.
- LBBW Asset Management Investmentgesellschaft mbH (LBBW AM) excludes investments in producers of anti-personnel mines and cluster munitions from its investment funds. This criterion is based on the two relevant UN conventions.
- Since 2011, new investments or reallocation of funds for the company pension system through the additional retirement pension plan of LBBW (ZVK-LBBW) have been subject to sustainability criteria. Respected sustainability rating agency oekom research regularly audits the criteria while LBBW AM manages the funds.
- LBBW ceased the sale of investment products associated with agricultural commodities. The »LBBW Rohstoffe 1,« »LBBW RS Flex,« and »LBBW Rohstoffe 2 LS« funds hold absolutely no investments in agricultural commodities.
- The »sustainable focus of the issuer/investment firm« criterion was added to the product review process for the Retail Customers/Private Banking customer area. The issuers or investment companies mentioned in our current product recommendations have signed the PRI or agreed to be bound by comparable sustainability standards.

In December 2017 Landesbank Baden-Württemberg issued its own green bond. The issue has a volume of EUR 750 million and a four-year term. The Bank will be using the issuing proceeds to fund energy-efficient commercial real estate that meets national regulations or internationally recognized standards as well as renewable energy projects going forward. In a second party opinion, oekom research reviews whether the criteria for the Green Bond Principles have been met.

Investment business.

EUR billion	2017	2016	2015
Volume of sustainable cash investments at LBBW Asset Management Investmentgesellschaft mbH	19.18	1.02	0.68

As at 31 December 2017, LBBW Asset Management administered and managed three sustainable retail investment funds, several sustainable special funds and two asset management mandates, with a total volume of EUR 19.18 billion. The material increase year-on-year is attributable to the change in investment strategies for a number of special funds and for one asset management mandate, as well as to new special fund mandates.

Sustainable financing.

Avoidance of reputation and sustainability risks in financing.

LBBW is aware of its corporate responsibility in all financing projects. This is why LBBW ensures, through mandatory in-house review processes and a comprehensive set of rules, that ecological, social and ethical reputation and sustainability risks are identified, analyzed, and assessed early in the process of deciding on extending credit such as export financing, corporate loans, or project financing. This can result in LBBW rejecting such transactions or terminating business relationships. Our »sustainability guidelines« and the principles of the UN Global Compact set the standards for lending. The Credit Guidelines specify, among other things, the inclusion of environmental sustainability, human rights, labor laws and social value.

The following internal test processes for financing projects, along with others, are implemented at LBBW:

- **Review process for industry/country risks.**
  In order to identify, analyze and assess any sustainability risks in international financing projects, a sustainability review must be carried out for certain loan inquiries in the industries deemed especially relevant, namely mining, petroleum/natural gas, wood/paper and bioenergy, in certain countries sensitive to these industries.
- **Company exclusion list for controversial weapons systems.**
  LBBW does not enter into any business relationships with companies that produce cluster munitions and/or anti-personnel mines, which are prohibited by international conventions. We ensure this at the operational level with a company exclusion list that applies throughout the entire Group (= LBBW (Bank) and all subsidiaries majority owned by LBBW) and is also integrated into the automated embargo monitoring system of the Bank. The exclusion list is updated twice per year based on an external database.

Promotion of renewable energies and energy efficiency.

LBBW again funded a number of wind and solar farms in Germany and other European countries in 2017.

LBBW assists retail customers in renovating and modernizing buildings in line with energy-efficiency requirements and arranges related advisory services. It also refers its corporate clients to services to improve energy efficiency upon request.

Lending business.

EUR billion	2017	2016	2015
Volume of renewable energies project finance/loan drawdowns	2.32	2.34	2.47

Product responsibility/consumer protection.

The goals and wishes of customers are the top priority. Integrated advising tailored to customer needs is very important to LBBW (Bank). Our customer account managers work with customers to explore their goals — including those beyond investing — and subsequently prepare a personalized »financial plan«. Long-term wealth accumulation and portfolio optimization are at the forefront here.

LBBW (Bank) offers information on various types of investment and any of the risks associated with these. Every investment consultation is documented. The Bank's advisors are not assigned sales targets for individual securities products. There are no point or unit systems for assessing sales and revenue targets.

Our sustainable approach to financial advising and the rules for systematic implementation and review are set out in the »Leitlinien für die Privatkundenberatung in der BW-Bank« (»Guidelines for retail customer advice at BW-Bank«) (www.bw-bank.de). In these, we affirm the following, among other things: »We operate on the basis of respect and tolerance. Discrimination due to gender, nationality, ethnic background, sexual orientation, age, disability, religion or ideology will not be tolerated under any circumstances.«

Specific work instructions and process guidelines provide the framework for the advising process. Product selection guidelines and review mechanisms aim to ensure that we focus on the customer's interests.

Compliance (combating corruption and bribery).

All employees at LBBW receive regular training on compliance-related matters. Self-teaching tools on money laundering, fraud prevention, sustainability and other topics within the LBBW Group must be utilized by all employees.

Code of conduct.

Sustainable business success is based on trust. In the long term, LBBW will only be competitive if it meets its responsibility to customers, shareholders, competitors, business associates, supervisory authorities and, not least, its own employees. Therefore, unconditional compliance with all statutory provisions and internal rules as well as the integrity of each individual employee constitute the foundations of sustainable corporate governance. For this purpose, LBBW has adopted a code of conduct as an overarching guideline. This code applies to LBBW and its subsidiaries. The aim of the code is to create a reliable, normative frame of reference or guidance for responsible action by each individual that satisfies the legal requirements and is in line with ethical and societal standards.

Compliance function pursuant to MaRisk.

More than ever, it is important that the company react quickly to critical developments and make sound decisions based on reliable data. This means preparing risk information in a timely fashion, providing substantive risk reporting and agile risk management, and above all establishing a culture of corporate compliance that exemplifies a responsible risk culture.

For this purpose, the German Federal Financial Supervisory Authority (BaFin) provided more details on the »minimum requirements for risk management (MaRisk)« of banks and financial service institutions using the German Banking Act as a basis in its Circular 9/2017. LBBW has established a compliance function that meets the requirements in accordance with MaRisk and is directly integrated into its basic procedures. The key legal regulations and stipulations for the Bank are continually identified, including risk-based monitoring to ensure compliance with all appropriate, effective procedures.

Capital markets compliance.
The Capital Markets Compliance department is responsible for complying with all legal regulations pertaining to securities products and the relevant stipulations of supervisory authorities. To this end, it issues internal guidelines and work instructions which serve as guiding principles. A risk analysis is performed once a year. Among other factors, this focuses on the relevant statutory regulations and an analysis of individual risks.

Anti-money laundering.
In their function as financial intermediaries, banks are particularly exposed to the risk of being abused for money laundering purposes. Accordingly, the LBBW Group has developed Group-wide business and customer-related security systems and controls for preventing money laundering and terrorism financing. These include, for example, rules on relationships with politically exposed persons, the process for accepting applications from new customers, the updating of customer data and continual monitoring of business relationships as well as the integration of the Anti Money Laundering Officer in the New Product Process.

Fraud and corruption prevention.
At LBBW, the purpose of fraud prevention is to prevent criminal acts that could expose the assets of LBBW or its customers to the risk of loss or could harm the LBBW Group's reputation. Risks are analyzed, leading indicators are tracked, and transaction and customer-related security systems and controls are implemented. The objective of the annual risk analysis is to identify and evaluate any internal and external risks relating to criminal offenses that are relevant to the Bank and the Group. Using this as a basis, preventive measures are then developed.

Financial sanctions/embargoes.
LBBW is obligated to initiate measures to ensure compliance with national and international financial sanctions and embargo regulations. Financial sanctions result in restrictions to capital movements and payments, whereas embargoes limit the freedom of foreign trade.

A country and product matrix configured in LBBW's Intranet presents one component of the internal rules on sustainability relevant to the Bank's international business (financial sanctions, embargoes and critical industry/country combinations arising from sustainability and reputation risks).

Employee matters.

LBBW is very demanding of itself and hence of its workforce. At the same time, it offers highly attractive workplaces with development potential for ambitious employees who take pleasure in success. As an attractive employer, the Bank has always offered a wide range of training opportunities and extensive solutions for achieving a very good work-life balance. It also invests in the health of its workforce. The personal development activity is designed using the »guidelines« of sustainable human resource work as a basis.

Personnel development.

LBBW (Bank) offers a comprehensive internal training program to ensure the focused qualification of its employees. This comprises seminars and training opportunities that also include training in methodological and social competence alongside the focus on technical qualifications. These are supplemented by training to optimize foreign language skills together with subject-specific seminars run by external providers. Employees wishing to expand their business management skills also have the option of attending part-time university courses while continuing their employment. At the same time, it includes specific offerings for executives on personnel management and the careful handling of the Bank's own and external resources. LBBW's employees took advantage of the education opportunities on offer more than 15 000 times in 2017.

In addition to basic leadership training for all newly appointed managers, the »FOKUS E3« series was developed and launched for new department heads. The modules can be booked individually. The main topics of the training include but are not limited to leadership roles, work environments evolving as a result of digitalization, and dealing with changes.

A number of individual workshops were held in 2017 for the purpose of making the change processes within LBBW successful. A number of managers and their teams took part. The focus was on general challenges in change management processes, specific requirements in practice and agile work methods.

In addition, managers can take advantage of the LBBW management consulting team's coaching workshop to receive individual consulting and support relating to management and personality.

Diversity.

By aligning itself with the »Diversity as Opportunity – German Corporate Diversity Charter« initiative (www. charta-der-vielfalt.de), LBBW is committed to creating a workplace free of prejudice for all employees.

Promoting the careers of women.

LBBW (Bank) plays an active role in supporting women's career opportunities, with the goal of making competition for positions fair and thus significantly increasing the percentage of women in mid to upper management positions. To this end, we have established a comprehensive concept, which includes a mentoring program as well as individual career planning seminars. This guarantees that women's leadership potential and career ambitions are both recognized early on and supported in the long run.

Key figures for LBBW (Bank)/diversity.

	2017	2016	2015
Percentage of female employees	53 %	52 %	52 %
Percentage of women in leadership positions	17.2 %	16.9 %	16.6 %
Percentage of severely disabled employees or equivalent status[1]	5.0 %	4.8 %	4.7 %
Percentage of employees with a foreign nationality	5.6 %	5.6 %	5.4 %

1 The number of severely disabled employees or those with equivalent status can vary depending on the date of compilation, due to the retroactive recognition of an employee's status as severely disabled. This may lead to discrepancies between the information contained in the non-financial statement of the Management Report and the LBBW Sustainability Report.

Additional information on the topic of diversity is available in the Human Rights section (see page 132).

Work-life balance.

To provide the best possible work-life balance, we offer various options for flexible working hours. As helping parents find childcare services is a matter of course for us as an employee-oriented company, we also allow space for, for instance, sabbaticals.

Support for employees who are caring for elderly relatives or disabled family members is also becoming increasingly important. Subject to prior consultation with their managers, employees who care for a family member can apply for an additional six months' leave over and above the statutory entitlement of six months. The »Pflegefall, was nun?« (Care required, what now?) seminar, which well over 500 employees have attended so far, provides our employees with an overview of issues including long-term care insurance and financing of costs, dealing with home nursing services, legal precautions, and counseling centers.

Support in childcare is another offering. The Bank's employees at all head offices can utilize childcare services. These include children's day care services, emergency childcare and special arrangements during school holidays. We offer all employees an advisory and support program provided by a third-party service provider, pme Familienservice. In addition to the parental leave time guaranteed by law, mothers and fathers who have been employed by LBBW for at least three years prior can take a leave of absence called a »family year.«

The conditions underlying HR policy that have been created at LBBW provide an important contribution to ensure that the constantly changing requirements regarding the work-life balance are met. The effectiveness of the measures offered were confirmed in the audit process conducted by berufundfamilie GmbH, an initiative of the non-profit Hertie Foundation. Bearing the seal since 2010, LBBW is audited regularly at three-yearly intervals.

Company health management.

LBBW's Company Health Management (CHM) is tasked with promoting the health and wellness of employees in the workplace, thereby maintaining and improving motivation and performance.

Although the generally accepted factors with a major effect on workplace health — ergonomics and occupational psychology — are taken as a starting point, LBBW’s health efforts delve deeper into the structure and design of the working environment. Leadership and communication styles are of central importance in this regard. CHM therefore takes an interdisciplinary approach and answers to the head medical officer of LBBW in his post as the head of the Health Management department.

Our efforts toward ensuring a »healthy company« were recognized in 2016: In a Germany-wide comparison of companies conducted by EuPD Research Sustainable Management, Handelsblatt, TÜV SÜD Akademie and the ias Group, LBBW's Company Health Management achieved the well-respected »Excellence« status as part of the Corporate Health Awards — once again, with a better overall result than last time.

Occupational health service.

As the primary point of contact, the Occupational Health Service supports and advises all employees in basically all health-related matters while maintaining strict doctor-patient privilege. In addition to typical workplace and socio-medical issues such as returning to work after a physical or mental illness, the Occupational Health Service is also available for behavioral and environmental prevention, first aid, emergency medical care/services, travel medicine, general medical care and vaccinations. These services are closely integrated with those offered by the Social Services Department and Company Health Management at LBBW to create a model that our employees can access to develop their own personal health strategy.

Welfare department.

The Welfare department advises employees and executives at the sites in Stuttgart, Karlsruhe, Mannheim, Mainz and Leipzig as well as branch employees on topics such as stress, conflicts and difficult situations at work, mental health issues (burnout, depression), addiction, and personal issues (such as the death of a loved one). Preventive advising on matters like resilience and healthcare is also offered. After an acute crisis situation such as a serious accident, sudden death or bank robbery, the Welfare Department offers immediate emergency psychological care. This can help prevent or mitigate any possible subsequent health consequences or absences. In individual cases, employees can also be referred to external counseling centers, clinics or psychotherapists.

In addition to one-on-one advising, the Welfare Department also offers employees and managers workshops, training courses and presentations covering psychosocial issues such as burnout prevention, dealing with difficult situations with customers or resilience.

LBBW improvement process.

The LBBW improvement process is another personnel development activity focusing on creativity, inventiveness and the ability of LBBW (Bank) employees to innovate. With this process, they can actively contribute to improving, streamlining and optimizing their own work, their workplace and the quality of processes and products.

Employees put up a total of 4 313 improvement suggestions (+3.4%) for review in 2017. These ideas yielded a benefit of EUR 27.4 million (+ 32%). Upon being implemented, they lowered costs, minimized risks, made working procedures more efficient and improved the quality of services and products.

The employees' ideas ensure that the strategic thrusts of business focus, digitalization, sustainability and agility are accepted and promoted in an exemplary fashion. For this reason, they are expected to have this tool at their disposal in 2018 as well to help bring their wealth of ideas to the Bank.

Key figures for LBBW (Bank).

	2017	2016	2015
Average age	44.8	44.2	43.4
Average length of service in years	18.9	18.3	17.5

Social matters.

Investing in **education** is investing in the future – and the rewards are the highest when as much practical training as possible is provided. As a public-sector bank with regional roots, we take our social mandate seriously and actively help to increase young people's familiarity with the business world while giving students early guidance in choosing their career. In doing so, we do not only want to convey knowledge but also reinforce social skills and awareness of responsibility for the sustainable development of society.

Donations are an important part of LBBW's commitment to society. Donations are primarily focused on social, cultural and scientific projects. In keeping with our strong regional roots, we generally support recipients in our regional core markets.

As a **sponsor**, we support projects and cultural institutions in Baden-Württemberg as well as the regions in which LBBW Rheinland-Pfalz Bank and LBBW Sachsen Bank operate. In addition to musical establishments, such as Stuttgart Opera House and Nationaltheater Mannheim, we also sponsor sporting events including the renowned STUTTGART GERMAN MASTERS equestrian competition. Moreover, we participate in various community projects, a successful example of which is Kinderspielstadt Stutengarten (Stutengarten play city for children).

The Landesbank Baden-Württemberg **Foundation** has sponsored nearly 10 500 projects since being founded more than 30 years ago, with a total of more than EUR 25 million overall. LBBW's foundation activities aim to have as broad an effect as possible, to promote young people and to provide help to a continual stream of new initiatives.

Human rights.

Company policy.

To enforce its sustainability Policy and sustainability goals, LBBW has defined principles and guidelines as a basis for orientation. Our commitment to the protection of human rights states, »As part of the international community, we are committed to the United Nations' Universal Declaration of Human Rights«.

Supply chain.

Supplier registration.

Activities with our suppliers are based on supplier registration. In order to be an approved supplier of LBBW, among other things questions about sustainability issues must be answered on LBBW's supplier portal. Every supplier is additionally required to acknowledge the »Sustainability agreement for LBBW suppliers« when registering with LBBW and sign it when entering into a contract. This agreement compels our suppliers to comply with what we consider to be essential environmental and social criteria. Any supplier violating the social standards contained in the Sustainability

Agreement (e.g., prohibition against human rights abuses, such as child labor) must accept such violation as grounds for termination of the Agreement without notice.

We expect our suppliers to commit to taking responsibility for environmental, economic, social and community issues in all areas of their business activities to the same degree as LBBW.

Central purchasing.
Centrally organized purchasing operations and binding Bank-wide standards enable us to ensure that sustainability issues are factored into investment decisions and, in cases where several product alternatives with comparable quality and cost are available, the best product in terms of sustainability is chosen. On the one hand, this enables us to guarantee that the manufacture and use of products at LBBW meet the highest sustainability standards possible. On the other hand, it allows us to promote environmentally and socially aware policies and business practices by our business partners.

Customer relationships.
In its guidelines on the loan business and those for retail customer advice, LBBW incorporates sustainability aspects in terms of the observance of human rights (see pages 125 and 126).

A complaint was filed against LBBW in 2017 regarding discrimination against the disabled in the course of a consultation.

Treatment of our employees.
Co-determination and representation of employees with disabilities.
Co-determination at LBBW is based on the State Employee Representation Act for Baden-Württemberg. Staff meetings are held regularly at LBBW's larger locations. Employees have the right to exercise the freedom of association and assembly throughout the Group. LBBW employees who hold severely disabled status are advised and represented by the General Representative Body for the Severely Disabled (GSBV – Gesamtschwerbehindertenvertretung) and five regional representative bodies for the severely disabled.

Diversity.
A Diversity Officer is assigned to supervise and support diversity and equal opportunity efforts at LBBW. According to a works agreement on protection from discrimination and a cooperative environment in the workplace, employees who feel discriminated against may turn to the Staff Council, the representative for employees with disabilities, the responsible manager, the Welfare department or the complaints board.

Training.
All of LBBW's employees must complete the e-learning tool »Fraud prevention and sustainability« and the tool for implementing the General Act on Equal Treatment (Allgemeines Gleichbehandlungsgesetz). The e-learning tools include human rights issues.

Environmental management system.

Our environment and sustainability management system is applicable to LBBW (Bank) (including BW Bank, LBBW Rheinland-Pfalz Bank, and LBBW Sachsen Bank) and the wholly owned subsidiaries

GastroEvent GmbH, LBBW Immobilien Management GmbH, BW Immobilien GmbH and LBBW Asset Management Investmentgesellschaft mbH.

EMAS Certification.
We have committed to complying with the standards of the Eco-Management and Audit Scheme (EMAS) and ISO 14001, and have maintained a certified environmental management system since 1998. The implementation of the Scheme and ISO standard is verified once a year by means of an internal and an external audit. Both audits were performed successfully in 2017.

The following are validated according to EMAS and certified according to ISO 14001:

- four Am Hauptbahnhof buildings and two buildings located at »Pariser Platz« in Stuttgart,
- the »Fritz-Elsas-Strasse 31« building (known as the »Bollwerk« building) in Stuttgart,
- the »Königstrasse 3« building in Stuttgart,
- the »Kleiner Schlossplatz 11« building in Stuttgart,
- the »Augustaanlage 33« building in Mannheim

Results of the concepts.

Sustainability ratings.

- Munich-based oekom research AG gave LBBW an overall grade of C+ on a scale of A+ to D-. This result puts LBBW in 3rd place out of a total of 89 banks analyzed internationally in the »Financials/Public & Regional Banks« segment as at November 2017. LBBW meets the minimum standards for sustainability management defined by oekom research and is ranked »Prime«.
- In the Sustainalytics sustainability rating, LBBW scored 77 out of 100 points, which put it in 12th place out of 396 rated financial institutions in the international banking sector (as at January 2017).
- In imug's Sustainability Rating of Bank Bonds, LBBW was evaluated favorably as an issuer of public-sector (BBB) and mortgage (BB) covered bonds. As an issuer of unsecured bonds (CCC) LBBW received an overall rating of neutral. The term »unsecured bonds« refers to all types of unsecured, fixed-interest securities, and time and savings deposits (as at January 2017).
- In the 2017 sustainability rating of MSCI ESG Research, LBBW received an overall assessment of AA, thus coming in second among German financial institutions as at June 2017.

External and internal audits.

In 2017, LBBW did not incur any fines or penalties resulting from non-compliance with statutory environmental regulations. During the internal and external audits, no substantive violations of environmental law were uncovered.

Material risks and how they are handled.

Risk Management at LBBW is defined as the use of a comprehensive range of tools to manage risks – including reputation risks – within the scope of LBBW's potential to bear risk and the strategy laid down by the Board of Managing Directors.

- The non-transaction-related management of reputation risk is the responsibility of the »Group Communication/Marketing/Board of Managing Directors' Office« and »Compliance« departments.
- The transaction-related management of reputation risks, such as evaluating new business, is conducted peripherally by the front-office units, especially in the course of the New Product Process (NPP) and credit application process. A product certification process is carried out prior to the NPP for OTC (over-the-counter) derivatives for interest rate, foreign exchange and commodities management.
- The Compliance division and the Sustainability group support the relevant front office divisions in their day-to-day business in identifying and assessing transaction-related reputation risks.

The risk management guidelines set out the main principles for the consideration of opportunities and risks within the LBBW Group and form the basis of a uniform Group-wide understanding of the Bank's goals in connection with risk management.

For additional information see page 50.

Consolidated financial statements.

CONTENTS

The consolidated financial statements for the 2017 financial year were prepared in accordance with Section 315e (1) of the German Commercial Code (HGB) and Commission Regulation (EU) no. 1606/2002 of the European Parliament and of the Council dated 19 July 2002 (IAS regulation) in accordance with the regulations of the International Financial Reporting Standards (IFRS) as applicable in the European Union.

Income statement

for the period 1 January to 31 December 2017.

EUR million	Notes	1 Jan. – 31 Dec. 2017	1 Jan. – 31 Dec. 2016[1]
Interest income	22	12 187	12 332
Interest expense	22	– 10 601	– 10 663
Net interest income	22	1 587	1 669
Allowances for losses on loans and advances	23	– 92	– 51
Fee and commission income	24	649	634
Fee and commission expense	24	– 115	– 107
Net fee and commission income	24	534	527
Net gains/losses from financial instruments measured at fair value through profit or loss	25	219	146
Net gains/losses from financial investments	26	132	183
Net income/expenses from investments accounted for using the equity method	27	31	13
Other operating income/expenses	28	101	101
Administrative expenses	29	– 1 824	– 1 814
Guarantee commission for the State of Baden-Württemberg		– 61	– 93
Expenses for bank levy and deposit guarantee system		– 69	– 71
Impairment of goodwill	40	0	– 379
Net income/expenses from restructuring	30	– 41	– 87
Consolidated profit/loss before tax		**515**	**142**
Income taxes	31	– 97	– 131
Net consolidated profit/loss		**419**	**11**
of which attributable to non-controlling interests after tax		2	1
of which attributable to shareholders after tax		416	10

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

Total comprehensive income

for the period 1 January to 31 December 2017.

EUR million	Notes	1 Jan. – 31 Dec. 2017	1 Jan. – 31 Dec. 2016
Net consolidated profit/loss		**419**	**11**
Net consolidated profit/loss in equity			
Items that will not be transferred subsequently to the income statement			
Retained earnings			
Actuarial gains/losses before tax	21.53	20	–221
Income taxes	31	–5	67
Measurement gains/losses from own creditworthiness			
Measurement gains/losses from own creditworthiness before tax	21.53	–19	–27
Income taxes	31	5	4
Items that will be transferred subsequently to the income statement when specific conditions are met			
Revaluation reserve			
Gains/losses on financial assets AfS before tax	21.53	178	90
Transferred to income statement	21.53	–133	–183
Income taxes	31	1	–5
Measurement gains/losses from investments accounted for using the equity method			
Changes before tax	21.53	2	3
Currency translation differences			
Changes before tax	21.53	–12	6
Transferred to income statement	21.53	0	–1
Total net consolidated profit/loss in equity		**38**	**–265**
of which from non-current assets and disposal groups held for sale		–28	–47
Net consolidated total comprehensive income		**456**	**–255**
of which attributable to non-controlling interests after tax		2	1
of which attributable to shareholders after tax		454	–256

Balance sheet

as at 31 December 2017.

Assets.

EUR million	Notes	31 Dec. 2017	31 Dec. 2016[1]	1 Jan. 2016[1]
Cash and cash equivalents	8.32	22 729	13 532	1 167
Loans and advances to banks	9,33,35	48 184	39 288	30 245
Loans and advances to customers	9,15,34,35,69	108 332	111 232	108 785
Allowances for losses on loans and advances	9.35	– 684	– 828	– 1 128
Financial assets measured at fair value through profit or loss	6.36	31 386	50 175	64 765
Financial investments	6.37	22 848	25 693	25 230
Shares in investments accounted for using the equity method	3,10,38	245	233	239
Portfolio hedge adjustment attributable to assets	6	606	764	569
Non-current assets and disposal groups held for sale	11.39	104	191	153
Intangible assets	12.40	244	249	541
Investment property	13.41	554	574	663
Property and equipment	14,15,42,68	482	507	664
Current income tax assets	16.43	92	116	114
Deferred income tax assets	16.43	1 016	1 037	1 023
Other assets	17,18,44	1 575	861	989
Total assets		**237 713**	**243 623**	**234 018**

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

Equity and liabilities.

EUR million	Notes	31 Dec. 2017	31 Dec. 2016[1]	1 Jan. 2016[1]
Deposits from banks	6.45	61 895	44 568	44 248
Deposits from customers	6.46	79 415	70 641	62 540
Securitized liabilities	6.47	44 432	34 343	29 411
Financial liabilities measured at fair value through profit or loss	6.48	27 922	69 846	74 063
Portfolio hedge adjustment attributable to liabilities	6	239	485	569
Provisions	19.49	3 796	3 734	3 401
Current income tax liabilities	16.50	47	57	62
Deferred income tax liabilities	16.50	28	31	27
Other liabilities	17.51	1 199	889	709
Subordinated capital	20.52	5 364	5 895	5 329
Equity	**21.53**	**13 377**	**13 134**	**13 659**
Share capital		3 484	3 484	3 484
Capital reserve		8 240	8 240	8 240
Retained earnings		820	1 014	1 078
Other income		371	348	413
Unappropriated profit/loss		416	10	425
Shareholders' equity		**13 331**	**13 096**	**13 641**
Equity attributable to non-controlling interests		46	38	19
Total equity and liabilities		**237 713**	**243 623**	**234 018**

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

CONSOLIDATED FINANCIAL STATEMENTS

Statement of changes in equity

for the period 1 January to 31 December 2017.

EUR million	Share capital	Capital reserve	Retained earnings[1]	Revaluation reserve	Measurement gains/losses from investments accounted for using the equity method
Equity as at 31 December 2015	3 484	8 240	1 062	344	38
Restatement of prior year amounts	0	0	16	0	0
Adjusted equity as at 1 January 2016	**3 484**	**8 240**	**1 078**	**344**	**38**
Allocation to retained earnings	0	0	425	0	0
Transfer of historical measurement effects from LBBW's own credit rating (early adoption of IFRS 9)	0	0	- 46	0	0
Distribution to shareholders	0	0	- 290	0	0
Changes in the scope of consolidation	0	0	5	0	0
Actuarial gains/losses	0	0	- 154	0	0
Measurement gains/losses from own creditworthiness	0	0	0	0	0
Changes in AfS financial instruments	0	0	0	- 97	0
Measurement gains/losses from investments accounted for using the equity method	0	0	0	0	3
Currency translation differences	0	0	0	0	0
Net consolidated profit/loss in equity	0	0	- 154	- 97	3
Net consolidated profit/loss	0	0	0	0	0
Net consolidated total comprehensive income	0	0	- 154	- 97	3
Other changes in equity	0	0	- 3	0	0
Equity as at 31 December 2016	**3 484**	**8 240**	**1 014**	**247**	**42**
Allocation to retained earnings	0	0	9	0	0
Distribution to shareholders	0	0	- 219	0	0
Capital increase/capital decrease	0	0	0	0	0
Changes in the scope of consolidation	0	0	1	0	0
Actuarial gains/losses	0	0	15	0	0
Measurement gains/losses from own creditworthiness	0	0	0	0	0
Changes in AfS financial instruments	0	0	0	46	0
Measurement gains/losses from investments accounted for using the equity method	0	0	0	0	2
Gains/losses from the measurement of cash flow hedges	0	0	0	0	0
Net consolidated profit/loss in equity	0	0	15	46	2
Net consolidated profit/loss	0	0	0	0	0
Net consolidated total comprehensive income	0	0	15	46	2
Other changes in equity	0	0	- 1	0	0
Equity as at 31 December 2017	**3 484**	**8 240**	**820**	**293**	**44**

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

The composition of equity is explained in Notes 21 and 53.

	Measurement gains/losses from own credit rating	Currency translation reserve	Unappropriated profit/loss	Shareholders' equity[1]	Equity attributable to non-controlling interests	Total[1]
	0	31	425	13 624	19	13 643
	0	0	0	16	0	16
	0	**31**	**425**	**13 640**	**19**	**13 659**
	0	0	–425	0	0	0
	46	0	0	0	0	0
	0	0	0	–290	0	–290
	0	0	0	5	17	22
	0	0	0	–154	0	–154
	–22	0	0	–22	0	–22
	0	0	0	–97	0	–97
	0	0	0	3	0	3
	0	5	0	5	0	5
	–22	5	0	–265	0	–265
	0	0	10	10	1	11
	–22	5	10	–256	1	–255
	0	0	0	–3	1	–2
	24	**35**	**10**	**13 096**	**38**	**13 134**
	0	0	–10	–1	1	0
	0	0	0	–219	0	–219
	0	0	0	0	4	4
	0	0	0	1	1	2
	0	0	0	15	0	15
	–13	0	0	–13	0	–13
	0	0	0	46	0	46
	0	0	0	2	0	2
	0	–12	0	–12	0	–12
	–13	–12	0	38	0	38
	0	0	416	416	2	419
	–13	–12	416	454	2	456
	0	0	0	–1	0	–1
	11	**23**	**416**	**13 331**	**46**	**13 377**

Cash flow statement

for the period 1 January to 31 December 2017.

EUR million	Notes	1 Jan. – 31 Dec. 2017	1 Jan. – 31 Dec. 2016[1]
Net consolidated profit/loss		**419**	**11**
Non-cash items in net consolidated profit or loss and reconciliation to cash flow from operating activities			
Depreciation, write-downs and reversals of impairment losses on receivables, property and equipment, and financial investments		114	133
Increase in/reversal of provisions		307	318
Other non-cash expenses/income		– 30	– 664
Gains/losses on the sale of financial investments and property and equipment		– 85	– 92
Other adjustments		– 1 493	– 1 575
		– 768	**– 1 869**
Changes in assets and liabilities from operating activities			
Loans and advances to banks		– 8 788	– 9 062
Loans and advances to customers		2 770	– 2 823
Financial assets measured at fair value through profit or loss		14 194	19 325
Financial investments		2 623	– 375
Other assets from operating activities		– 552	203
Deposits from banks		17 363	432
Deposits from customers		8 788	8 151
Securitized liabilities		10 081	4 971
Financial liabilities measured at fair value through profit or loss		– 37 753	– 8 318
Other liabilities from operating activities		116	– 28
Dividends received		40	50
Interest received		12 963	12 349
Interest paid		– 11 587	– 10 882
Income taxes paid		– 71	– 83
Cash flow from operating activities		**9 420**	**12 040**
Proceeds from the sale of			
equity investments		234	158
Property and equipment		2	2
Payments for the acquisition of			
equity investments		– 8	– 20
Property and equipment		– 21	– 12
Intangible assets		– 67	– 130
Proceeds from the sale of consolidated companies[2]		0	14
Payments for the acquisition of consolidated companies		– 21	0
Cash flow from investing activities		**120**	**12**
Dividends paid		– 219	– 290
Other payments	52	– 65	– 6
Net change in cash and cash equivalents from other capital		– 487	620
Cash flow from financing activities		**– 771**	**324**

1 Restatement of prior year amounts (see Note 2).
2 The consideration comprises entirely of cash and cash equivalents.

EUR million	Notes	1 Jan. – 31 Dec. 2017	1 Jan. – 31 Dec. 2016[1]
Cash and cash equivalents at the beginning of the period	**32**	**13 532**	**1 167**
Cash flow from operating activities		9 420	12 040
Cash flow from investing activities		120	12
Cash flow from financing activities		– 771	324
Changes owing to exchange rates, basis of consolidation and measurement		429	– 11
Cash and cash equivalents at the end of the period	**32**	**22 729**	**13 532**

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

The cash flow statement shows the change in cash and cash equivalents resulting from cash flows from operating, investing and financing activities during the financial year.

Cash and cash equivalents correspond to the LBBW Group's cash reserve and include cash, balances with central banks, public-sector debt instruments eligible for refinancing operations and bills.

Cash flow from operating activities is determined indirectly from net consolidated profit/loss. Cash flows that are primarily connected with the revenue-producing activities of the LBBW Group or cash flows resulting from activities that cannot be allocated to investing or financing activities are allocated to cash flow from operating activities.

Cash flow from investing activities shows proceeds and payments relating to the disposal or acquisition of non-current assets.

All proceeds and payments from transactions relating to equity, subordinated capital, capital generated from profit participation rights and typical silent partners' contributions are included in cash flow from financing activities.

In addition to the cash-effective change in equity (dividend payment), cash flow from financing activities incorporates the cash flows from the silent partners' contributions and additional subordinated capital, which are shown in the net change in cash and cash equivalents from other capital. During the period under review, the volume of subordinated capital held fell by EUR 531 million from the previous year. Besides the cash-effective change of EUR – 547 million, this was also as a result of the measurement effects of EUR 9 million and the change of EUR 7 million in the interest deferral.

Notes

for the 2017 financial year.

Basis of group accounting.

Landesbank Baden-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.

The consolidated financial statements for the 2017 financial year were prepared in accordance with Section 315e (1) of the German Commercial Code (HGB) and Commission Regulation (EU) no. 1606/2002 of the European Parliament and of the Council dated 19 July 2002 (IAS regulation) in accordance with the regulations of the International Financial Reporting Standards (IFRS) as applicable in the European Union. The standards and interpretations published at the time of preparation of the financial statements, adopted by the European Union and relevant and binding for the Group, are authoritative.

The consolidated financial statements of LBBW were released by the Board of Managing Directors for publication on 13 March 2018.

Accounting policies.

1. Accounting principles.

The consolidated financial statements are based on the going concern principle.

In accordance with IFRS 10.19 and IAS 28.35, financial statements in the LBBW Group are prepared using uniform accounting policies across the Group. These were applied consistently to the reporting periods shown, unless stated otherwise. As a rule, the annual financial statements of the consolidated companies or investments accounted for using the equity method are prepared on the balance sheet date of the consolidated financial statements of LBBW. A different reporting date exists for only one company. In this case too, the figures as at 31 December 2017 are taken into consideration in these consolidated financial statements.

The functional currency and the reporting currency of LBBW is the euro (EUR). The amounts in these consolidated financial statements are generally rounded commercially to EUR millions. This may result in minor aggregation differences; however, these do not have any adverse effect on the reporting quality. The reporting year is the calendar year.

The consolidated financial statements are prepared on the basis of historical and amortized cost as well as fair value. The fair value is used in the case of investment property, investment securities classified as available-for-sale, and financial assets and liabilities measured at fair value through profit or loss.

Income and expenses are accrued. Interest income and expense are presented using an approach that corresponds to the effective interest method.

Borrowing costs for qualifying assets (inventories, non-current assets) are capitalized. A qualified asset is a non-financial asset that requires a considerable amount of time to prepare it for its intended use or state of sale.

Long-term construction orders exist within the Group. Given the immateriality of these transactions for the consolidated financial statements, however, no further details were provided.

2. Changes and estimates.

IFRS applied for the first time.

The following IFRS were applied for the first time in the 2017 financial year:

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

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

Disclosure Initiative – Amendments to IAS 7.

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

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

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

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

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

IFRS to be applied in future.

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

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

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

The changes are applicable for the first time in the 2018 financial year. The first-time application of this standard has no material effect on the consolidated financial statements.

IFRS 9 Financial Instruments.

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

LBBW already availed itself in the 2016 financial year of the option for the voluntary early application of the provisions on the presentation of gains and losses of financial liabilities designated at fair value through profit or loss. Aside from the new regulations on the accounting of hedging relationships, LBBW will apply the remaining requirements of IFRS 9 for the first time in the 2018 financial year.

The reforms in terms of the content of IFRS 9 are mainly accounted for by the following topics regarding the recognition of financial instruments:

Classification – financial assets.

IFRS 9 includes a new classification and measurement approach for financial assets reflecting the business model as part of which the assets are held and the individual characteristics of their cash flows. All told, the new standard includes three classification categories for financial assets: carried at amortized cost (AC), measured at fair value through profit or loss (FVTPL) and measured at fair value through other comprehensive income (FVOCI). As already expected for the first half of 2017, of the financial assets measured at amortized cost under IAS 39, only a few individual cases were subject to recognition at fair value through profit or loss.

Impairment – financial assets.

LBBW experienced the biggest impact on the presentation of net assets and results of operations that resulted from the revised requirements with respect to allowances for losses on loans and advances. Since 1 January 2018, the size of allowances for losses on loans and advances for all financial assets that represent debt instruments on the one hand and are not to be measured at fair value through profit or loss on the other will be calculated on the basis of uniform rules, rather than according to separate requirements depending on the category, as is the case at present. In tandem with this, starting from the 2018 financial year LBBW needs to report not only the incurred loss but also the expected loss. In connection with this, in the event of a material increase in the default risk of the individual financial asset since its addition to the balance sheet, all expected losses over the entire term of the financial asset are now recognized directly. As a consequence of this paradigm shift, allowances for losses on loans and advances will in the overall analysis in future tend to be set aside earlier and will, all told, be higher than they would be pursuant to the impairment provisions of IAS 39. This requires major discretionary decisions with respect to the question as to the extent to which the expected loan defaults are influenced by changes in economic factors.

Accounting of hedging transactions.

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

Transition.

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

Implementation project.

The assessment of the individual business models and the portfolio analyses of the cash flow properties were concluded within the IFRS 9 project in the LBBW Group. This formed the basis for IFRS 9 categorization. The models for calculating the impairments in line with the requirements of IFRS 9 were implemented both professionally and technically, and were consequently used for calculating the effect of initial application resulting from the transition to IFRS 9.

The initial application effect, which is recognized directly in equity, arises from the reclassification of financial instruments, the new provisions for the recognition of impairments on financial instruments and a reverse effect from the recognition of deferred taxes on the two aforementioned effects. According to current estimates, the cumulative initial application effects as at the initial application date of 1 January 2018 will lower equity by EUR 150 to 200 million. This reduction is largely due to the new regulations on the recognition of impairments. The reduction in equity leads to a decline of approx. 25 basis points in the CET1 ratio (fully loaded).

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

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

The changes will be applied retrospectively for the first time in the 2018 financial year. The scope of application and the impact of the first-time application of IFRS 15 was examined as part of a preliminary study for the Group. No circumstances were identified which would result in different accounting when compared with IAS 18. Moreover, no application cases were identified in the Group for IAS 11 that would need to be accounted for differently pursuant to IFRS 15. One change only arises in relation to the cost of sales within the scope of development projects, which must be capitalized with the introduction of IFRS 15. This results in an initial application effect of EUR 2.4 million, which will be reflected in equity as an adjustment to the opening balance sheet value. With the exception of additional information in the Notes pursuant to IFRS 15 no further impact is expected on the consolidated financial statements of LBBW.

Clarifications to IFRS 15.

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

These changes have been taken into account as part of the preliminary study for IFRS 15 and shall be applied for the first time in the 2018 financial year.

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

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

These changes will be applied for the first time in the 2018 financial year. Given that LBBW's remuneration models do not fall within the scope of IFRS 2 »Share-based Payments«, it does not have any impact on the consolidated financial statements.

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

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

These changes will be applied for the first time in the 2018 financial year. Given that LBBW's transaction do 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 sets out the conversion of foreign currency transactions in the case of advance consideration paid or received and clarifies the exchange rate to be applied.

The changes are expected to be effective for the first time in the 2018 financial year. The impact of first-time application of this standard was analyzed as part of a preliminary study on IFRS 15 »Revenue from Contracts with Customers«. The standard had not yet been recognized in European law at the date on which these financial statements were released for publication.

Transfers of Investment Property – Amendments to IAS 40.

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

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

Prepayment Features with Negative Compensation – Amendments to IFRS 9.

This amendment regulates that financial assets with an early repayment option, where the terminating party receives/pays appropriate compensation, can be carried at amortized cost or measured at fair value through profit or loss.

This change is expected to be mandatory for the first time as at 1 January 2019. The impact of first-time application of this standard is still being reviewed. The standard had not yet been recognized in European law at the date on which these financial statements were released for publication.

IFRS 16 Leases.

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

These changes are expected to be effective for the first time in the 2019 financial year. Impacts from the first-time application of this standard were analyzed as part of a technical preliminary study. Procedural and technical implementations will subsequently be examined and implemented.

IFRIC 23 Uncertainty over Income Tax Treatments.

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

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

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 application of this standard is not expected to have any material effect on the consolidated interim financial statements. The standard had not yet been recognized in European law at the date on which these financial statements were released for publication.

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 have an impact on the recognition, measurement and reporting of assets and liabilities as well as on the extent of the reporting obligations.

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

Plan Amendment, Curtailment or Settlement – Amendments to IAS 19.

This standard takes into consideration the evaluation 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 first-time application of this standard is still being reviewed. The standard had not yet been recognized in European law at the date on which these financial statements were released for publication.

IFRS 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 first-time application of this standard is still being reviewed. The standard had not yet been recognized in European law at the date on which these financial statements were released for publication.

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

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

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

Changes.

Estimates and assumptions were made in accordance with the accounting standards concerned for determining the assets, liabilities, income and expenses recognized in the consolidated financial statements. These are based on historical experiences and other factors such as plans and – as far as can be currently judged – probable expectations and forecasts of future events. Such significant estimates can change from time to time and significantly affect the net assets and financial position, as well as the results of operations.

In addition, discretionary decisions were reached when preparing the financial statements regarding the determination of the scope of consolidation, the classification of the financial instruments, investment property, the leasing relationships and the allocation to the levels pursuant to IFRS 13.

Estimates and assumptions mainly relate to the calculation of the fair value of financial instruments and investment property, the value of assets and the calculation of the allowances for losses on loans and advances, as well as the recognition and measurement of subordinated capital, provisions and deferred taxes. Moreover, estimates and assumptions are made regarding specific cash flows. Where significant estimates and/or complex judgements were required, the assumptions made are explained in detail in the Notes to the corresponding items.

The estimates and assumptions are each based on the level of knowledge currently available about the expected future business performance and trends in the global and sector-specific environment. Where actual values differ from the estimates made, the underlying assumptions and – if necessary – the carrying amounts of the relevant assets and liabilities are adjusted accordingly on a prospective basis.

The following changes in estimates were applied prospectively in accordance with IAS 8.39 in the financial year:

- In the financial year, a change was made to the interaction of the parameters used to calculate the Bank's own credit spread. In turn, the Bank's own credit spread is used as a parameter for calculating the bilateral credit valuation adjustment (CVA). This amendment results in a reduction of EUR 8 million in net gains/losses from financial instruments measured at fair value.

The impact of the changes in estimates on future reporting periods that were implemented in the year under review are in particular dependent on the development of market parameters and expectations in the future. A quantitative determination of the effects on future reporting periods is therefore only possible on the basis of models and hence to a limited extent.

In the financial year the following facts were corrected retrospectively in accordance with IAS 8.42:

- In the course of the gradual rental to third parties of an office building owned to date by the Group for its own use, the necessary classification of the building as »Investment property« was not made in 2015 but continued to be recognized under property and equipment. The retrospective correction of the cumulative effects on earnings from previous years was reported as at 1 January 2016 and led to a EUR 7 million increase in equity as a result of the EUR 6 million reduction in property and equipment and a EUR 13 million increase in the balance sheet item »Investment property«. These include immaterial valuation effects that arose in the 2016 financial year.
- The issue discount for a floating rate note issued in previous years on the capital market was amortized in full through profit and loss in the first interest period and not distributed over the entire term. The retroactive correction of the distribution of the issue discount led to an increase of EUR 9 million in equity as at 1 January 2016 and to a reduction of EUR 13 million in securitized liabilities. Furthermore, deferred income tax assets were reduced by EUR 4 million. These effects include immaterial amortization effects that arose in the 2016 financial year.

Effects from derivatives close-out fees had previously been recognized in Net interest income, while the counterbalancing measurement effects were recognized in Net gains/losses from financial instruments measured at fair value through profit or loss. To ensure a more appropriate presentation of this matter over several reporting periods, close-out fees will also be reported in »Net gains/losses from financial instruments measured at fair value through profit or loss« in the future. To enhance transparency and clarity the previous year's figures were already adjusted accordingly as at 30 June 2017 and an amount of EUR 44 million reclassified from »Net interest income« into »Net gains/losses from financial instruments measured at fair value through profit or loss«.

Due to technical improvements, some disclosures in the Notes could be determined for the first time or more precisely; this applies in particular to the details in Notes 37, 40 and 69. The relevant prior year amounts were adjusted accordingly to provide greater transparency and clarity. The said changes impact only on the disclosures in the Notes and have no effect on the balance sheet and the income statement.

3. Scope of consolidation.

In addition to LBBW (Bank) as the parent company, 103 subsidiaries, including 9 structured entities (previous year: 110 subsidiaries including 10 structured entities), were included in the consolidated interim financial statements.

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

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

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

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

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

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

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

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

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

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

- Signaris GmbH (formerly NEIF Signaris S.à r.l. - form-changing conversion as at 27 October 2017)
- Lyoner Quartier GmbH & Co. KG
- Berlin Lützowstraße GmbH & Co. KG
- Löwentor Stuttgart Komplementär GmbH
- Löwentor Stuttgart Projekt GmbH & Co. KG
- PALS Funding 2 LLC

The following subsidiaries are no longer included in the scope of consolidation for reasons of accretion or merger into other fully-consolidated Group companies.

- Mannheim O 4 Projektgesellschaft mbH & Co. KG
- Vermietungs- und Verwaltungsgesellschaft Sendlinger Straße GmbH & CO. KG
- IRP Immobilien-Gesellschaft Rheinland-Pfalz mbH
- VVS III Verwaltungs-GmbH
- VVS III GmbH & Co. KG
- MANUKA Grundstücks-Verwaltungsgesellschaft mbH
- Rebstockpark 7.1 Entwicklungsgesellschaft mbH & Co. KG
- Ganghofer Straße München Komplementär GmbH
- Ganghofer Straße München GmbH & Co. KG
- Bahnhofplatz Objektverwaltungs-GmbH
- aiP Gärtnerplatz GmbH & Co. KG
- LBBW Spezialprodukte-Holding GmbH

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

- Humboldt Multi Invest B SICAV-FIS Sachsen LB Depot A

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

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

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

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

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

- OVG MK6 Komplementär GmbH

The accretion of the following joint venture to SüdLeasing GmbH ended its being accounted for using the equity method:

- Alida Grundstücksverwaltungsgesellschaft mbH & Co. Vermietungs-KG

As a material joint venture, Sealink Funding DAC was included using the equity method in the scope of consolidation for the first time as at 31 December 2017. However, the equity method cannot be used for Sealink Funding DAC, due to a lack of equity investment by LBBW.

The included joint venture Vorarlberger Landes- und Hypothekenbank AG was renamed Hypo Vorarlberg Bank AG in the year under review.

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

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

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

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

A total of 70 subsidiaries (previous year: 100 subsidiaries) were not included in the consolidated interim financial statements because their individual and aggregate influence on the net assets, financial position and results of operations of the LBBW Group is not significant. These comprise mainly real estate and shelf companies, as well as start-up financing in the area of equity investments. The interests in these entities are either measured at fair value or carried at amortized cost.

4. Principles of consolidation.

The subsidiaries and SPEs are consolidated according to the purchase method in accordance with IFRS 10.B86 in conjunction with IFRS 3. Accordingly, all of the subsidiaries' assets and liabilities recognized from the acquirer's perspective at the time of acquisition or at the time when controlling influence is acquired are recognized at their fair value. The remeasured assets and liabilities are taken over into the consolidated balance sheet, taking deferred taxes into account, and are treated according to the standards to be applied in the subsequent periods.

Where the cost for the business combination exceeds the fair value of the assets and liabilities at initial acquisition, goodwill (goodwill in proportion with the investment) is recorded under intangible assets. The share of the equity or in the net gain/loss of the fully consolidated companies of LBBW Group not attributable to shareholders is reported separately in the item Equity attributable to non-controlling interests or Net income/loss of which attributable to non-controlling interest after tax in the income statement.

Intra-group receivables and liabilities, as well as income, expenses and profits and losses resulting from intragroup transactions, were adjusted by adjusting debt and profit or the elimination of the interim result.

Joint ventures and associates are accounted for using the equity method provided they are not of minor significance for the presentation of the LBBW Group's net assets, financial position and results of operations. The pro rata share in profit or loss of investments accounted for using the equity method is recorded in the consolidated financial statements at the same time. Investments accounted for using the equity method are measured on the basis of the Group's share in equity plus goodwill and historical undisclosed reserves.

5. Currency translation.

The foreign currency translation in the Group is conducted in accordance with IAS 21. Each LBBW Group company determines its functional currency. The items included in the financial statements of the relevant group company are measured using this functional currency and translated into the reporting currency (euro).

A foreign currency transaction must be initially recognized at the spot rate between the functional currency and the foreign currency at the transaction date. Monetary assets and liabilities denominated in foreign currency and unsettled foreign currency spot transactions are always translated into euros at the prevailing closing rate. Nonmonetary items measured at amortized cost are translated at the historical rate at the transaction date. Nonmonetary items measured at fair value are translated at prevailing exchange rates on the date of the fair value measurement (closing rate).

Exchange differences are generally recognized in profit or loss in the period in which they occur. Exceptions are non-monetary items for which fair value adjustments are recognized in Other income. Resulting translation differences are recognized in the Revaluation reserve.

In the consolidated financial statements, the balance sheet items of consolidated companies whose reporting currency is not the euro are translated at the exchange rate on the balance sheet date. Average annual rates are used to translate the expenses and income of these companies. Equity is translated at historic prices. All the resulting translation differences are recognized in Other income (currency translation reserve).

The exchange rates used for the most important currencies in the LBBW Group at the closing date are as follows:

Amount per EUR 1 in the respective currency	31 Dec. 2017	31 Dec. 2016
USD	1.1987	1.0548
SGD	1.6023	1.5238
MXN	23.5780	21.7263
RUB	69.3323	64.4035
RON	4.6617	4.5403

6. Financial instruments.

Financial assets and financial liabilities are initially recognized when the entity becomes a party to the contractual provisions of the instrument. Spot transactions of non-derivative financial instruments are recognized on the settlement date and spot transactions of derivative financial instruments on the trade date.

A financial asset is derecognized when the contractual rights to the cash flows from the financial assets expire or these are transferred to third parties and no substantial risks and rewards are retained from the financial assets.

In the case of transactions where all significant risks and rewards associated with ownership of the financial asset are neither retained nor transferred, the transferred asset is derecognized if control over this asset – i.e. the capacity to sell it – is given up. The claims and obligations retained in the context of the transfer are recognized separately as assets and liabilities. If control over the asset in question is retained, the asset continues to be reported in accordance with the scope of the continued involvement. This scope is defined according to the extent of the value fluctuations of the transferred asset to which the Group remains exposed.

Financial liabilities are derecognized upon termination of the liability (generally though repayment).

In addition to the following information about the general accounting and valuation methods of financial instruments, further explanations, particularly in relation to IFRS 13, can be found in Notes 54 et seqq.

Financial assets or financial liabilities measured at fair value through profit or loss.

This category in IAS 39 makes a distinction between financial instruments classified as held for trading (HfT) and financial instruments irrevocably designated at fair value through profit or loss at the time of acquisition (designated at fair value/fair value option (FVO)). Financial assets and liabilities in this category are measured at fair value through profit or loss.

Derivatives, money market transactions, securities and borrower's note loans acquired for the purpose of generating a profit from short-term fluctuations in market prices or realizing dealing margins are classified as held for trading. This subcategory includes those derivative financial instruments (broken down into trading derivatives and economic hedging derivatives) that are used for trading purposes or are part of an economic hedge and do not satisfy IAS 39 requirements for hedge accounting. Financial instruments held for trading are reported in the balance sheet under Financial assets measured at fair value through profit or loss or Financial liabilities measured at fair value through profit or loss. Unrealized measurement gains/losses as well as realized gains and losses are recognized under Net gains/losses from financial instruments measured at fair value through profit or loss.

The Financial instruments designated at fair value subcategory includes financial instruments that were not acquired nor are held for trading purposes, but are measured at fair value through profit or loss. Financial instruments with embedded derivatives, which are required to be separated but are not spun off, are assigned to the fair value option. Additionally, the fair value option is applied to eliminate or significantly reduce inconsistencies in the measurement or recognition of financial instruments. Compound financial instruments mainly include LBBW's own bearer bonds and borrower's note loans issued, which are structured with interest rate, credit, equities and/or currency derivatives. When eliminating measurement inconsistencies for financial instruments designated at fair value, this concerns securities and associated liabilities which would otherwise have been subject to different measurement conventions than the associated derivatives. Financial instruments that qualify for the fair value option on initial recognition are reported in the balance sheet under Financial assets measured at fair value through profit or loss or Financial liabilities measured at fair value through profit or loss. The effects of changes in the fair value of the designated financial instruments are carried in Net gains/losses of financial instruments measured at fair value through profit or loss; the share of gains/losses attributable to changes in own creditworthiness is reported directly in Other comprehensive income.

Current income from financial instruments held for trading and designated at fair value is reported in Net interest income.

Available-for-sale financial assets.

Available-for-sale financial assets include all non-derivative financial instruments that have not already been assigned to other categories. Financial instruments designated as available-for-sale financial assets are reported under Financial investments. Measurement is at fair value. The measurement gain or loss is reported in Other income under the subitem Revaluation reserve of AfS financial instruments. Impairment losses and realized measurement gains/losses are reported in the income statement. Reversals of impairment losses on debt instruments are recognized through profit or loss (up to amortized cost), while reversals of impairment losses on equity instruments are reported in »Other income«.

In the case of debt instruments, a test is performed at each balance sheet date or when specific events arise, in order to assess whether there is any objective evidence that individual financial assets are impaired. Objective evidence of impairment includes, in particular, significant financial difficulty for the borrower, a breach of contract, a strong likelihood that the borrower will enter bankruptcy or other financial reorganization. Impairments for securities that do not represent securitizations are identified through rating classes (default rating).

An equity instrument is impaired if there is a significant or prolonged decline in its fair value to below its cost. For available-for-sale assets, a significant impairment is assumed if the fair value at the measurement date is at least 20% below the cost of the asset. Permanent impairment is also assumed if the fair value is permanently more than 5% below the cost of the asset over a period of twelve months.

Income or expenses from currency translation are reported for debt instruments (e.g. bonds and debentures) under currency gains/losses, while income and expenses from currency translation are reported for equity instruments (e.g. equities, equity investments, interests in companies) in Other income in the subitem Revaluation reserve. When a financial instrument is sold or in the event of impairment, the change in value accrued in the revaluation reserve is recorded under Net gains/losses from financial investments.

Silent partners' contributions with participation in losses are also categorized as financial investments (AfS) and are measured accordingly at fair value.

Derivatives.

At LBBW Group, derivatives are used to hedge balance sheet and/or off-balance-sheet items within the scope of its asset/ liability management, to hedge value fluctuations in, for example, fixed-income securities against changes in the market interest rate and to hedge credit spreads for corporate bonds. Derivatives are also used to hedge fluctuations in interest rates or other market prices for trading transactions. Furthermore, derivative financial transactions are performed as trading transactions.

As at the balance sheet date, the LBBW Group has the following types of derivatives in its balance sheet portfolio:

- Forwards and futures are contractual agreements for the purchase or sale of a specific financial instrument at a specified price and at a specified time in the future. Forwards are non-standardized contracts traded on the OTC market. Futures are contracts for standardized volumes and are traded on stock exchanges.
- Swaps are contractual agreements between two parties where one stream of interest payments and/or currencies is exchanged for another based on a specified nominal value in the case of certain events arising.
- Credit derivatives are contractual agreements between two parties where compensation payments are made by the protection seller subject to rating-related events. The protection buyer pays a premium.
- Options are contractual agreements that give the buyer the right to buy or sell a specific amount of a financial instrument at a specified price on a specified date or during a specified period of time.

Hedging transactions within the meaning of IAS 39 (hedge accounting) are reported under Financial assets measured at fair value through profit or loss (positive fair values on the assets side) or under Financial liabilities measured at fair value through profit or loss (negative fair values on the liabilities side).

Embedded derivatives.

Structured instruments are financial instruments that are composed of a host contract and one or more derivatives, where the embedded derivatives are a component of a contract and therefore not traded separately. In accordance with IAS 39, embedded derivatives are separated from the host contract and accounted for as standalone derivatives if all of the conditions below are satisfied:

- the structured instrument is not already measured at fair value through profit or loss,
- the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract and
- the terms of the embedded derivative would meet the definition of a derivative.

If a structured product is separated for accounting purposes, the host contract must be accounted for in accordance with its category and the embedded derivative accounted for separately in the held-for-trading category. The host contract is measured subject to the category to which this host contract would be assigned. Embedded derivatives that are separated from their host contract are measured at fair value with changes in value recognized in profit or loss. If the criteria for separation of the embedded derivatives are not met, the host contract and the embedded derivative must be recognized and measured as one asset or one liability.

Hedge accounting.

The hedge relationship is documented at the inception of the hedge. The documentation clearly identifies the hedged item and the hedging transaction, it encompasses the definition of the risk being hedged, the description of the hedging strategy and the risk management objective, and defines the method used to assess the hedging instrument's effectiveness. In accordance with the provisions of IAS 39, the hedge relationship must be expected to be highly effective at its inception and throughout the entire term. In addition, effectiveness must also regularly be reviewed retrospectively. A hedge relationship is considered to be effective if the ratio of the changes in value from the hedging transaction to the hedged part of the hedged item is between 80% and 125%. An ineffective hedge relationship must be reversed. A reversed hedge relationship can be redesignated for the remaining term provided it is assumed to be effective for the remaining term (prospective test).

If the requirements for hedge accounting in accordance with IAS 39.71 et seqq. are met, a decision is made as to whether the hedge relationship will be accounted for as a fair value hedge or as a cash flow hedge. Fair value hedges serve to hedge the exposure to market price risk and therefore the related changes in fair value. They exist in the form of micro fair value hedges and portfolio fair value hedges.

In a micro fair value hedge the carrying amount of the hedged item is adjusted for the change in the fair value of the hedged risk and recognized in profit or loss. This applies to the financial instruments valued at amortized cost as well as to the hedged item measured at fair value, whose changes in value are recorded in Other income. Changes in the fair value of the hedged item not attributable to the hedged risk are accounted for in accordance with the guidance applicable to the relevant category.

LBBW uses the portfolio fair value hedge to hedge interest rate risks within the meaning of IAS 39. The rules applicable to portfolio fair value hedges on interest rate risks enable LBBW to reproduce internal Bank management of interest rate risks. The portfolios contain both receivables and liabilities that are subject at regular intervals to prospective and retrospective measurement of effectiveness in a dynamic hedge accounting cycle. The cash flow is allocated to the appropriate time interval for each financial instrument according to the expected maturity.

In the case of portfolio fair value hedges, a separate line item (portfolio hedge adjustment attributable to assets/liabilities) is carried on the face of the balance sheet to record the valuation effect on the hedged items as regards the hedged risk.

The measurement gains and losses resulting from the measurement of the hedging transaction generally offset the measurement effect of the hedged items attributable to the hedged risk. These are recognized under Net gains/loss from financial instruments measured at fair value through profit or loss.

A hedging relationship ends when the hedged item or the hedging transaction expires, is sold, is terminated before maturity or is designated for other purposes, or if the hedge no longer meets the criteria to qualify for hedge accounting. If a financial instrument used to hedge changes in the fair value of a hedged item is terminated before maturity or designated for other purposes, the interest-related fair value adjustment included in the carrying amount of the hedged item is amortized over its remaining maturity and netted against interest income or expenses. In the event of disposal or early repayment of the hedged assets or liabilities, the adjustments in the fair value of the hedged item are recognized along with the realized gains/losses from the disposal or repayment.

Securities repurchase and lending agreements.

The LBBW Group enters into both securities repurchase and lending agreements.

Only genuine repurchase agreements are currently made in the LBBW Group. Genuine repurchase agreements are contracts providing for the transfer of securities against payment of a specified amount in which the return of the securities to the pledgor at a later date for a price agreed in advance is also agreed.

As the pledgor, the LBBW Group continues to carry the assets pledged on the balance sheet in accordance with the provisions of the respective IAS 39 category and also recognizes the proceeds received as a loan to the pledgee. As the pledgee, the LBBW Group only recognizes a corresponding receivable from the pledgor as an asset.

Interest payments on repurchase agreements are recorded as interest income or interest expense. The collection of interest or dividends from the securities depends on the form of the contract and can favor either the pledgee or the pledgor. The interest and dividends are reported accordingly under Net interest income.

Lending agreements are non-cash lending transactions in which ownership of securities or other tangible assets (commodities) is transferred with an obligation on the borrower to retransfer securities or tangible assets of the same type, quality and quantity on expiration of the agreed period of time and pay a fee for the duration of the loan.

As the lender, the LBBW Group continues to report the securities and tangible assets in accordance with the rules applicable to the relevant category in IAS 39. As the borrower, the LBBW Group does not report the borrowed securities/tangible assets. If the borrowed securities/tangible assets are sold on to another party, a gain on disposal is recognized as an asset and an obligation to return the securities is recognized under Trading liabilities at the same time.

The consideration paid by the borrower is reported under Net interest income. The collection of interest or dividends depends on the form of the contract and can favor either the borrower or the lender. The interest and dividends are reported accordingly under Net interest income.

Financial guarantee contracts.

Obligations arising from guarantees provided by Group companies relate to contracts that require the Group to make specified payments to reimburse the holder for a loss which incurs because a specified borrower fails to make payment when due in accordance with the terms of a debt instrument. These contracts meet the requirements for a financial guarantee within the meaning of IAS 39.9 and are therefore not to be measured as a derivative.

The recognition of financial guarantees by the **assignee** is excluded from the scope of IAS 39 (IAS 39.IN6). The assignee of a financial guarantee may be subject to a contingent claim in accordance with IAS 37, which may not be capitalized (IAS 37.31). The premium paid (one off or in installments) for the financial guarantee contract must be recognized by the assignee as a commission expense in the relevant period in accordance with IAS 18.20. In the case of a guarantee event, a claim is recognized against the assignor.

The initial recognition by the **assignor** is at fair value as deposits from banks/customers, as soon as the assignor becomes a contractual party (irrespective of the maturity of the premium payments). The fair value comprises the present value of the anticipated benefits and the current present value of the future premium payments. Financial guarantees concluded at market conditions have a fair value of zero. For subsequent remeasurement, the higher of the two amounts from a measurement recognized in accordance with IAS 37 and the amount originally recognized are used less, where appropriate, the cumulative amortization recognized in accordance with IAS 18.

Measurement at amortized cost.

The amortized cost of a financial asset or liability is calculated on the basis of the cost of the asset at the time of acquisition, taking into account any principal repayments, plus or minus accumulated amortization of any difference between the original amount and the amount repayable at maturity using the effective interest rate method less any write-down for impairment losses incurred.

Loans and receivables.

Loans and receivables (LaR) are all non-derivative financial instruments with fixed or determinable payments that are not quoted in an active market, unless they are designated at fair value through profit and loss (aFV) at the date of initial recognition. Loans and receivables are carried at amortized cost. Loans and receivables are tested for impairment at each closing date or whenever there are objective indications of potential impairment. Accordingly, write-downs must also be charged through profit or loss if necessary (see Note 6). Impairment losses are reversed in the income statement. Reversals are limited to the amortized cost that would have been recorded at the measurement date without impairment losses.

Loans and receivables include loans and advances to banks, loans and advances to customers and financial investments not classified as available for sale. Loans and advances to banks and loans and advances to customers primarily comprise originated loans, borrower's note loans, overnight and term money as well as pledgee transactions.

Other liabilities.

These financial liabilities include all financial liabilities under the scope of application of IAS 39 that are measured at amortized cost.

In accordance with IAS 39, own bonds held by LBBW are deducted from issued debentures. Own bonds held in the Group are offset at their respective redemption value against the amortized cost of the issued debentures. The difference between the redemption value and the amortized cost of the Group's own debentures is recognized in Net interest income.

Held-to-maturity financial investments.

Currently, LBBW Group does not use the category of Held-to-maturity financial investments.

7. Offset arrangements.

Financial assets and financial liabilities are mutually offset in balance sheet terms if the Group has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis or to liquidate the respective asset and settle the associated liability simultaneously. In all other cases, they are recorded by way of gross disclosure.

If asset and liabilities, such as own issues repurchased, are reported as offset in the balance sheet, the associated income and expenditure in the income statement must also be offset, unless offsetting is expressly prohibited by an applicable accounting standard.

8. Cash and cash equivalents.

In addition to cash and balances with central banks due on demand, cash and cash equivalents include public-sector debt instruments and bills due in up to three months. All items are reported at their nominal value.

9. Allowances for losses on loans and advances.

The item Allowances for losses on loans and advances comprises write-downs on financial instruments reported as loans and advances. This includes all loans that are not subject to fair value measurement.

In the case of the write-downs, a difference is made between specific valuation allowances, collective valuation allowances and portfolio valuation allowances. A write-down is generally created where there are objective indications of impairment. If this is the case, specific valuation allowances are recognized for significant receivables and collective valuation allowances for insignificant receivables. For this a test is performed on an ongoing basis to assess whether there is any objective evidence that individual financial assets or a group of financial assets are impaired. Objective evidence of impairment includes, in particular, significant financial difficulty for the borrower, breach of contract (default or delinquency in interest or principal payments), increased likelihood that the borrower will enter bankruptcy or other financial reorganization. If there are no indications, portfolio valuation allowances are created, since it can be assumed that certain risks have already occurred but were not yet recognized. If objective evidence of impairment exists in the case of significant receivables but no specific valuation allowance has to be recognized because the present value of the estimated cash flows at least equals its carrying amount, these significant receivables are also included in the portfolio valuation allowances.

The impairment loss is measured as the carrying amount of the loan less the present value of the estimated cash flows. To calculate estimated future cash flows, the amounts and accrual date of all anticipated proceeds from the loan (interest and repayments) as well as any payments from the liquidation of collaterals are estimated.

Interest income from impaired receivables does not include the contractually agreed interest income or the accrual of any discounts; rather, it is calculated in accordance with IFRS on the basis of the change in the present value of estimated future cash flows at the next balance sheet date (so-called unwinding). Expected incoming payments reduce both the carrying amount of the receivables as well as the estimated cash flows, while unexpected payments lead to a reversal of the allowances for losses on loans and advances recognized in profit or loss.

Collective valuation allowances and portfolio valuation allowances are calculated as the product of the carrying amount (capital balance, arrears and pro rata interest), the probability that the exposure will default within one year (PD), the individual loss ratio taking collateral into account (LGD), and a factor that values the duration of arrears in the flow of information (LIP) for the portfolio valuation allowances reported on the assets side of the balance sheet.

The non-recoverability of loans or parts of loans not subject to impairment leads to a direct write-off (IAS 39.63). Recoveries on loans and advances already written off are recognized through profit or loss.

Loans are derecognized if they are uncollectible, where no surrogate substitutes the defaulted receivable. This is the case, for example, with:

- insolvency, when the collateral is realized or no insolvency ratio is expected,
- terminated exposures where the residual receivables are uncollectible,
- the claim is waived fully or partially, and
- sale of receivables with a loss.

To the extent that it relates to receivables reported on the face of the balance sheet, the total amount of allowances for losses on loans and advances is deducted as a separate item from loans and advances to banks and customers on the face of the balance sheet. On the other hand, allowances for losses on loans and advances for off-balance-sheet transactions are shown in the item Provisions for credit risks. Provisions for credit risks are recognized when current obligations exist and the settlement of these obligations can be expected to be associated with an outflow of resources. These obligations are recognized at the amount that LBBW would reasonably have to pay to settle the obligation or to transfer it to a third party according to the circumstances as of the reporting date.

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

Investments in associates or joint ventures accounted for using the equity method are carried at cost in the consolidated balance sheet once a significant influence is obtained or on formation of the company. This also comprises goodwill from the acquisition of an associate or a joint venture. In subsequent years, the figure accounted for using the equity method is adjusted by the Group's share in the associate's equity. The proportion of profit or loss generated by the investment is reported in the income statement as Net income/expenses from investments accounted for using the equity method. Changes in the investment's revaluation reserve are recognized directly and proportionately in Other income.

Because of the valuation of the equity investment, the equity value must be adjusted if necessary. The impairment test is conducted on the basis of IAS 39 and IAS 36.

Investments in associates that are not incorporated in the consolidated financial statements on account of their immaterial importance, are carried under Financial investments.

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

The carrying amount of non-current assets or groups of assets and debt (disposal groups), whose disposal is planned, is realized largely through the disposal business and not through continued use.

With regard to the cumulative fulfillment of the conditions stated below, the assets or disposal groups in question should be classified as held for sale and shown separately from the other assets or debt in the balance sheet. The criteria for classification as held for sale is that the assets or disposal groups can be disposed of in their present condition at prevailing conditions and that the disposal is highly likely. A disposal is highly probable if the plan to sell the asset is completed, an active program to find a buyer and to complete the plan has been initiated to actively offer the asset or the disposal group at a price that is appropriate relative to the current fair value and the disposal is likely to be within one year from the date of classification.

Assets classified as held for sale are measured at the lower value comprising carrying amount and fair value less the cost of disposal. The depreciation of the assets is suspended from the date they are classified as held for sale. Assets and liabilities held for sale and disposal groups are generally measured in accordance with of IFRS 5. Assets that are subject to the exemptions specified in IFRS 5.5 were measured according to the provisions of the respective standard. Accordingly, the fair value measurement of the relevant assets of this balance sheet item uses the same methods, parameters and approaches as all other assets of the LBBW Group that are measured at fair value. Assets or disposal groups classified as held for sale are recognized separately in the balance sheet item Non-current assets and disposal groups held for sale and Liabilities from disposal groups.

Gains/losses from the measurement and gains/losses from the disposal of these assets or disposal groups that are not included in a discontinued operation are contained in the income statement or in the revaluation reserve in equity and are not separated. The total profit or loss from discontinued business divisions must be shown separately in the item Profit or loss from discontinued operations.

12. Intangible assets.

Software acquired or developed in-house is mainly recognized under Intangible assets.

Purchased intangible assets are carried at amortized cost, i.e. less their cumulative write-downs and impairment. Internally developed software is capitalized at cost if the recognition criteria in accordance with IAS 38 are met. The capitalized costs mainly include staff costs and expenses incurred for external services during development. As in the previous year, the internally developed or purchased software is amortized over three to ten years on a straight-line basis.

Amortization, write-downs and impairment losses on intangible assets are recognized under Administrative expenses in the income statement. Income from reversals of impairment losses on intangible assets, excluding goodwill due to prohibition of reversal, is recognized under Other operating income.

Intangible assets are derecognized when sold. Gains and losses on disposal are the difference between the net proceeds from the disposal of the asset, if any, and its carrying amount. The profit or loss on the disposal of the asset is recognized through profit or loss at the date of derecognition, and reported under Other operating income/expenses.

13. Investment property.

Property leased out to third parties for purposes of generating profit is reported separately in the balance sheet as »Investment property« according to IAS 40 as long as it is held to earn rental income and/or for capital appreciation. Where mixed-use properties exist and the non-owner-occupied parts can be sold separately or leased out separately, these parts are accounted for separately. Mixed-use properties with a leased portion of over 80% of the total area are consistently derecognized from property and equipment and classified in their entirety as »Investment property«.

Investment property is measured initially at cost including transaction costs. These can also include direct borrowing costs if the respective properties are so-called qualifying assets. Remeasurement is at fair value on the closing date. This is determined primarily from model-based valuations. Regular actuarial reports are obtained for material investment properties to validate the fair value from the model-based valuations.

In the measurement of investment property, the estimating uncertainties are based on the assumptions used to calculate future cash flows. Changes in parameters such as the inflation rate, interest rate, anticipated cost trends and leasing, market conditions and vacancy rates affect future cash flows and, consequently, the fair value.

The value of investment property is assessed based on cash calculated per property on the basis of the discounted cash flow method. The contributions to earnings determined by this method are checked for plausibility and verified by means of reference figures from broker associations, past experience from LBBW's own disposals and appraisals by external experts. In order to ensure that the appraisals are available at the time the financial statements are drawn up, the management team responsible decides for which properties external appraisals are to be commissioned in the last quarter of each year. In line with internal provisions, it must be ensured that an appraisal of the main properties is conducted at least once every three years by an independent expert.

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

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

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

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

All other things being equal, an increase in the underlying market rents would lead to an increase in the fair value, while a decrease in the underlying market rents would lead to a decline in the fair value. All things being equal, an increase in the underlying future expenditure would lead to a decline in the fair value, while a decline in the underlying future expenditure would lead to an increase in the fair value. Higher discount rates would, all other things being equal, lead to lower fair values, while lower discount rates would lead to correspondingly higher fair values.

A change in the assumptions on expected market rents generally leads to a corresponding change in the discount rate and to a reverse change in the vacancy ratios and therefore the vacancy costs.

14. Property and equipment.

Property and equipment includes commercially used land and buildings, technical equipment and machinery, operating and office equipment, advance payments and assets under construction as well as leased assets.

Property and equipment is initially carried at cost and subsequently at amortized cost. Subsequent expenditure for property and equipment is capitalized if it is deemed to increase the future potential benefit. All other subsequent expenditure is recognized as an expense. Property and equipment is depreciated over its expected economic life, mainly on a straight line basis and sometimes on a diminishing basis. Determination of the economic life reflects expected physical wear and tear, technical obsolescence and legal and contractual constraints.

	Estimated useful life in years	
	31 Dec. 2017	31 Dec. 2016
Buildings	25 - 50	25 - 50
Technical equipment and machinery	5 - 10	5 - 10
Operating and office equipment	1 - 20	1 - 20
Purchased IT systems	3 - 7	3 - 7

The determination of the useful life and depreciation method is reviewed at a minimum at the end of each financial year. After scheduled depreciation, including the review of the depreciation method used, the underlying useful life and the residual value (recoverable amount of a comparable asset) of the asset in question, a check is performed at each balance sheet date as a minimum to ascertain whether there are any indications of impairment. Consequently, any impairments resulting from technical or economic obsolescence, wear and tear or a decline in market prices are taken into account. Where indications of impairment exist, the recoverable amount (the higher of the fair value minus sales costs or the value in use) is calculated and compared with the carrying amount. Impairment losses are charged to profit or loss as unscheduled write-downs.

Impairment losses must be reversed if the calculation of the recoverable amount has increased since the last time an impairment was recorded. Impairment losses are only reversed up to the amount by which the asset would have been depreciated until this date. If the carrying amount is increased by the reversal of impairment losses or reduced by impairment, the depreciation is adjusted over the remaining useful life of the asset.

The gain or loss on the disposal of property or equipment is calculated as the difference between the net proceeds from the disposal of the asset, if any, and its carrying amount.

Depreciation and impairment losses on intangible assets are recognized under Administrative expenses. Gains and losses on the disposal of property and equipment are recorded under Other operating income/expenses.

15. Leasing business.

Leases are recognized in accordance with IAS 17 on the basis of their classification as a finance or operating lease. This classification takes place at the beginning of a lease and is based on the overall assessment of which risks and rewards lie with the lessor and the lessee. The underlying criteria are reviewed regularly. If a change to the overall assessment takes place, reclassification is necessary.

A finance lease is where essentially all risks and rewards incidental to ownership of an asset are transferred from the lessor to the lessee. In accordance with the principle of substance over form, beneficial ownership, not legal ownership, is the key factor here. An operating lease is referred to in all other constellations.

The lessor and lessee must classify a lease separately and independently of one another. This may lead to diverging representations of the lease by the lessor and lessee.

The finance lease contracts of the LBBW Group include full amortization, partial amortization and hire purchase agreements. Depending on its form, a finance lease can be a cancelable agreement or an agreement with an option to sell. The lease payments must generally be made in advance.

The LBBW Group as the lessor.

In the case of operating lease transactions concluded in the LBBW Group, beneficial ownership of the leased asset remains with the Group company. The leased assets – mainly buildings and land – are recognized as assets and reported in the consolidated balance sheet under Property and equipment or Investment property. The leased assets are recognized in accordance with IAS 16 at (amortized) acquisition or production cost or are measured at fair value in accordance with IAS 40. Both the lease income and received special payments and prepayments are recognized over the lease term. All the depreciation, write-downs and impairment losses and the income earned are reported under Other operating income/expenses.

With a finance lease, the leased asset is derecognized and a receivable due from the lessee equivalent to the net investment value on the date on which the contract is concluded is shown under the item Loans and advances to customers or Loans and advances to banks. Lease payments received are broken down into an interest component recognized in income and a repayment component. While income is recognized on an accrual basis as interest income and is reported in net interest income, the repayment part reduces the receivables carried on the balance sheet.

The direct costs incurred by the lessor on the date on which the contract is concluded are assigned to the leasing contract. The internal interest rate underlying the lease term is determined in such a way that the initial direct costs are included automatically in the lease receivables.

The LBBW Group as the lessee.

With a lease that is classified as operating lease, the lease payments are recorded as Administrative expenses over the lease term. The breakdown of the lease payments corresponds to the time pattern of the user's benefit from the perspective of the LBBW Group. If the time pattern of the user's benefit differs from the actual payments of the expense to be recognized, the difference is recognized or deferred on the assets or the liabilities side of the balance sheet as appropriate.

If a lease term is classified as finance lease, the LBBW Group is the beneficial owner of the leased property and records this as an asset in the consolidated balance sheet. At the time of acquisition, the leased property is recognized at the fair value or at the present value of minimum lease payments, whichever is lower, and a payable in the corresponding amount is recognized as a liability. In subsequent remeasurement, the asset recognized is depreciated in accordance with IAS 16 or measured at fair value in accordance with IAS 40. If there is no reasonable certainty with property and equipment that LBBW or a consolidated subsidiary (lessee) will obtain ownership by the end of the lease term, the asset is depreciated over the (shorter) lease term (and not its economic life). If the lessee benefits from part of the residual value of the leased asset – essentially, buildings, operating and office equipment – the asset is depreciated to this value. The finance lease installments are apportioned into an interest component and a repayment component using the effective interest rate method. The repayment component is recognized against the liability, not affecting profit or loss while the interest component is recognized as interest expense.

As IAS 17 includes no special requirements for recognition of impairments, the general regulations on impairment (IAS 36) also apply to leases.

16. Income taxes.

IAS 12 governs the recognition and measurement of income taxes.

LBBW operates in several tax jurisdictions. The tax items shown in the financial statements are calculated taking into account the respective taxation laws and the relevant administrative interpretations. Due to their complexity, their interpretation by taxpayers may differ from that of the local tax authorities. As different interpretations of taxation laws as a result of company audits can lead to subsequent tax payments for past years, these are included in the analysis on the basis of the management's assessment.

Current income tax liabilities and assets are calculated at current tax rates and carried at the expected payment or refund amount. Current income tax assets and liabilities are offset under the requirements of IAS 12.71.

Deferred income tax assets and liabilities are recognized in respect of temporary differences. Taxable and deductible temporary differences are calculated as the difference between the IFRS carrying amount of an asset or liability and its local tax base (adjusted for permanent differences). The tax base is determined based on the tax regulations of the country in which the taxation occurs. Deferred income tax assets and liabilities are calculated at the tax rates that are expected to apply when the asset is realized or the liability is settled. The effect of tax rate changes on deferred taxes is recognized in the tax result during the period in which the changes were approved by legislative bodies.

Deferred tax liabilities are carried for temporary differences that will result in a tax expense when settled. Deferred tax assets are recognized if tax relief is expected and likely to be utilized when temporary differences are reversed. Deferred tax assets on temporary differences in equity are recognized in total comprehensive income in the subitem Revaluation reserve or Retained earnings, depending on the underlying situation.

A deferred tax asset is recognized for a tax loss carryforward if it is probable that the carryforward will be used in a future period by reference to budget accounts. The tax planning is derived from current corporate planning approved by the Board of Managing Directors, which regularly covers a planning period of five years. The tax planning takes into account historical insights into profitability and taxable income. In recognizing deferred income tax assets owing to interest carryforwards, the same accounting policies and valuation methods are applied as for deferred income tax assets from tax loss carryforwards. Deferred tax assets arising from temporary differences and loss carryforwards are reviewed for impairment at each balance sheet date.

Deferred tax assets are set off against deferred tax liabilities in accordance with IAS 12.74.

17. Other assets and other liabilities.

Other assets include assets which, considered separately, are not significant for the disclosure of balance sheet assets and cannot be allocated to any other balance sheet item. This also includes inventories, which are described in the following Note.

Other liabilities include accruals and obligations which, considered separately, are not significant for the disclosure of balance sheet liabilities and cannot be allocated to any other balance sheet item.

Assets and liabilities in these items are measured at amortized cost.

18. Inventories.

The activities that are related to the real estate business of LBBW Immobilien Management GmbH are shown in Inventories. These include mainly specific land and similar rights with finished and/or unfinished buildings as well as project finance earmarked for sale in the course of ordinary business activities.

In accordance with IAS 2.9, inventories are measured at the lower of cost of inventories and net realizable value. The cost of purchase and production is calculated in accordance with IAS 2.10 et seqq.; the net realizable value is calculated pursuant to IAS 2.28 et seqq. The purchase and production cost of inventories that cannot be exchanged and of goods and products or services created and separated for special projects is calculated through allocation of their individual cost of purchase or production. The acquisition costs include the directly allocable costs of acquisitions and provision, the production costs include all directly allocable costs plus production and material costs. The expected, individually realizable sales proceeds less estimated completion costs and additional costs incurred until the sale are recognized as the net realizable value. The results of these operating activities are recognized under the Other operating income/expenses item, which also includes the changes in value.

The capitalization of borrowing costs on the basis of IAS 23 is conditional upon the property being a qualifying asset. These interest costs are largely incurred in connection with commercial project development, which can be attributed to the acquisition of land or the construction of buildings during the production period. Individual interest rates of between 0.88% p.a. and 2.25% p.a. (previous year: 0.94% and 1.97% p.a.) were applied.

19. Provisions.

Provisions for pensions and other post-employment benefit obligations.

General information.

Provisions for pensions and similar obligations primarily consist of provisions for the obligation to pay company pensions, on the occurrence of biometric risks (old age, invalidity, death) based on direct pension commitments. The nature and amount of the pension payable to employees entitled to pension benefits are governed by the applicable pension rules (including total commitments and company agreements), which depend largely on the date that employment commenced. Due to other commitments, further indirect entitlements or claims exist against LBBW's supplementary pension fund (Zusatzversorgungskasse - ZVK) and the benevolent fund (Unterstützungskasse LBBW e.V); both facilities are closed for new policies. All of the aforementioned pension commitments are defined benefit plans within the meaning of IAS 19.

A unit-linked commitment (LBBW VorsorgeFonds Plus), which invests via a life-cycle model through a contractual trust arrangement (CTA), was introduced for new entrants after 31 December 2016. LBBW VorsorgeFonds Plus comprises an employer-funded Basiskonto (retirement account financed by the employer) and an employee-funded Aufbaukonto (retirement account to which contributions are made by the employee).

As a result of indirect pension commitments that are entered as defined contribution plans within the meaning of IAS 19, pension benefits from predecessor institutions are taken over and continued. To finance this, the relevant Group company contributes set amounts to external pension funds with individual participation by employees.

Employer-funded pension plans within Germany.

As part of the merger that led to the creation of LBBW in 1999, all existing pension arrangements were closed for new policies and a standard pension fund was introduced for new entrants in the form of a service contract; this is the so-called LBBW capital account plan (2000 and 2005) that is classified and entered as a defined benefit plan within the meaning of IAS 19. The company pensions will be disbursed primarily in the form of a one-off payment or in installments. The lump-sum benefits comprise annual components that are arrived at by multiplying a salary- related contribution with an age-related factors, which takes into account risk and biometric risks. The obligation to extend contributions applies for a limited period of time and features a dynamization proviso.

Following the integration of Landesbank Sachsen, its pension arrangements from 2006 were also closed for new policies as at 31 December 2008 through a service agreement and the active employees were transferred to the LBBW capital account plan with an unlimited period of contribution. The entitlements accrued until the time of integration were credited to the Basiskonto of the LBBW capital account plan as an initial benefit module.

As at 1 January 2002, the persons with compulsory ZVK insurance were transferred to the LBBW capital account plan ZVK by way of a service agreement. To protect the vested rights, the contribution payable to the Basiskonto for this group of employees equates to the minimum contribution payable by the Bank as an apportionment contribution when applying the collective labor agreement on the additional pension provision for public-sector employees in the respective calendar year (minimum contribution).

The capital account plan 2005 that had previously been in place for new entrants was closed for new employees as at 31 December 2016. At the same time, the period of contribution of capital account plans 2000 and 2005 was ended via a declaration of termination to the General Staff Council with effect from 31 December 2025. Employer contributions are made annually in the Basiskonto of LBBW VorsorgeFonds Plus on the effective provision date, since 1 January 2017 for new entrants and as of 1 January 2026 for existing members of staff from the capital account plans 2000 and 2005 that have ended.

The paid-in contributions are paid into a CTA once a year, which invests these in line with an investment concept. The obligation vis-à-vis the employee is guided by the performance of the investment. The paid-in amounts are guaranteed (so-called guaranteed minimum performance). In the event of a benefit case, the funds are divested or the fund units attributable to the employee are calculated and a choice may be made between different payout options (lump sum, installments, retirement distributions). The investment in the CTA (plan assets) measured at fair value is offset against the obligation from the LBBW VorsorgeFonds Plus.

Employer-financed commitments within Germany from predecessor institutions, acquired institutions and integrated institutions.

Various pension arrangements - closed to new entrants - exist from different predecessor, acquired and integrated institutions. These range from period of service and salary-dependent, total benefit commitments that sometimes relate to individual contractual provisions (retirement pension guidelines), limitation commitment and commitments with a split pension formula, through to pension component plans. Defined benefit plans should therefore be understood as commitments to grant a defined level of benefit in relation to the active salaries, taking into account additional pension payments (e.g. statutory pension), whereas a limitation commitment sets a defined level of benefit that may be not exceeded by the pension payments plus qualifying pension benefits.

Some current and former employees are entitled to aid (medical support). This was entered as defined benefit plans and the corresponding provisions pursuant to IAS 19 were created for employees that are still entitled to post-employment aid.

Employer-financed commitments within Germany.

In order to establish further entitlements and to implement the legal claim to salary conversion, LBBW offers the so-called Aufbaukonto (retirement account to which contributions are made by the employee) of the LBBW VorsorgeFonds Plus as a direct pension commitment. This has replaced the Aufbaukonto of the previous capital account plan as of 1 January 2018. The converted contributions of the employees are paid into a CTA twice a year, which invests these in line with an investment concept. The obligation vis-à-vis the employee is thus guided by the performance of the investment. The paid-in amounts are guaranteed (so-called guaranteed minimum performance). In the event of the benefit case, the funds are divested or the fund units attributable to the employee are calculated and a choice may be made between different payout options (lump sum, installments, retirement). The investment in the CTA (plan assets) measured at fair value is offset with the obligation from the LBBW VorsorgeFonds Plus.

There are also employer-financed entitlements from earlier conversions of earnings into pension contributions. Reinsurance agreements are also concluded in some cases to fund the pension benefits. There are no provisioning requirements for the deferred compensation option that is also offered, as this is entered as a defined benefit plan within the meaning of IAS 19. Direct insurance agreements are concluded with a provider from the savings banks' environment to secure long-term performance.

Commitments outside of Germany.

The employees of Landesbank Baden-Württemberg's London Branch were offered a direct final salary pension plan that is based on the number of years in service, which is closed for new policies and was replaced by a defined contribution plan within the meaning of IAS 19 for new employees. The pension plan's pension obligations are backed by plan assets managed by a pension trust. The pension plan as well as the pension trust are subject to UK regulations, according to which the Bank and the trustees responsible for the trust have to develop a funding strategy and plan contributions to the trust. The Bank bears the risks from the pension plan, including investment and demographic risks (longevity risk, in particular). Annuity contracts were concluded in the past to hedge risk when retirement began for those entitled to a pension. Term life insurance policies to cover mortality risk during active service exist for some beneficiaries. The pension plan bears the remaining risk.

The Bank and the trustees review the investment strategy every three years and adjust it if necessary. If there is a shortfall in cover, a contribution plan is agreed to reach the desired degree of cover. Some of the plan assets, such as the annuity contracts, are covered by the expected payment obligations with matching maturities (asset-liability matching).

For reasons of materiality, the information in Note 49 is not differentiated for the foreign plans.

Valuation and recognition in the balance sheet.

According to the provisions of IAS 19 and the LBBW VorsorgeFonds Plus, the total obligations for the defined benefit plans are calculated annually by independent actuaries. In this process, the present value of the defined benefit obligation is calculated at each reporting date using the projected unit credit method. This calculation takes into consideration not only the pensions and entitlements known at the balance sheet date, but also the future expected rates of increase of pensionable salaries and pensions, the expected benefit cases (old age, invalidity, death) as well as fluctuation rates. In addition to the benefits trend, it is assumed in the measurement of the pension obligations that the active employees' benefit trend will be slightly higher than the average trend up to their 50th year, on account of career development. The present value of the pension obligations is based on a calculatory interest rate derived from the Towers Watson's RATE:Link methodology. The data basis for determining the interest rate is the AA- rated corporate bonds compiled in Bloomberg for the eurozone by at least half of the rating agencies. Using actuarial methods, a yield curve is derived from this data, and from this a calculatory interest rate of similar maturity to the obligations is established. The probabilities of death, invalidity and probabilities of marriage are found in the mortality tables compiled by Prof. Klaus Heubeck. The age used for the start of retirement is 64 years. The premises described above are reviewed annually and adjusted if necessary.

Deviations from the expected development of the pension obligations as well as changes to the calculation parameters (employee turnover rate, salary increase, pension increase or discount rate) lead to so-called actuarial gains or losses. These are recognized directly in Retained earnings or Other income in their full amount in the year they arise, resulting in corresponding changes in equity.

The amount to be recorded as an asset or liability is calculated from the present value of the defined benefit obligation at the balance sheet date less the fair value of the plan assets (if any) at the balance sheet date. The past service cost arises due to changes in the defined benefit plan that impact on the pension entitlements accrued. Interest expense is the share of the increase in the present value of the defined benefit obligation, or the existing plan assets of the pension provisions, that arise because the benefits are closer to settlement. The staff costs equate to the present value of the annual increase in the pension entitlements accrued plus unrecognized past service costs.

The income expected from the plan assets is offset against the interest expense, so that only net interest expense is recognized. The calculatory interest rate is used for calculating net interest income. Service cost and net interest income are reported under Administrative expenses.

Risks and management.

In the case of defined benefit plans and the LBBW VorsorgeFonds Plus, the relevant Group company is obligated to grant benefits pledged to former employees and their dependants. The associated risks are borne by the Group company in question. In individual cases the group parent has made commitments to employees of subsidiaries and is reimbursed by the companies for the cost of the setting aside of provisions on an intragroup basis.

Material risks are balance sheet, liquidity and investment risks. In accordance with IAS 19, balance sheet risks arise especially in relation to the impact of pension obligations on equity, as the difference between expected and actual pension obligations is recognized under Other income and leads to changes in equity. The basis and amount of balance sheet risk determine the aforementioned actuarial gains or losses. They can therefore provide relief or be a burden. The main factor in relation to balance sheet risks are the calculatory interest rate, the yield of the plan assets, as well as the other economic and demographic measurement factors.

The calculatory interest rate plays a key role in determining the scope of obligations, not least on account of its volatility. The general lowering of interest rates in the last two years resulted in a markedly lower calculatory interest rate and therefore to a sharp increase in the pension obligations. Furthermore, portfolio and market developments that deviate from the measurement assumptions impact on the obligation amount and therefore on the corresponding balance sheet items. Actual salary and pension increases that are higher or lower than assumed are reflected accordingly in losses or gains. With the general contribution and limit systems, the performance of the entitlements and claims in the event of external providers, such as BVV or the statutory pension scheme, impact on the level of provision to be made by the Group company, which can have a relatively strong impact on the pension obligations, especially with lasting trend changes. Besides the economic risks stated, so-called biometric risks also exist. Since a large proportion of the pension obligations is attributable to lifelong benefit entitlements, the risk of longevity in particular must be stated. Deviations in the actual mortality rates observed from the mortality tables also result in gains or losses.

Sensitivity analyses were carried out for the material parameters. In addition to the calculatory interest rate, the most influential parameters examined were the impact of the salary, pension and career trend, as well as the staff turnover probability. The mortality, salary and pension trend impact on the obligations arising from the capital accounts open to new policies (Basiskonto and Aufbaukonto) and the fluctuation have comparatively little impact, since life-long benefits are generally not granted and the pension entitlements for active employees do not grow dynamically with the salaries. This will gradually reduce the balance sheet risk for the Group companies over time.

Meeting pension obligations entails the payment of pensions and therefore a capital outflow. Save for the calculatory interest rate, which does not impact on the amount of benefit payments, the balance sheet risk factors described above also affect the liquidity requirements. Since no plan assets were separated for the direct pension obligations, the benefit payments must be met from the assets of the Group companies. Plan assets that can be produced from the pension payments are available for the indirect obligations of LBBW's benevolent fund and supplementary pension fund. If sufficient cover is not available, the sponsoring undertakings are required to make additional contributions. The plan assets are subject to investment risk that is countered by careful asset management.

The mandatory protection against the insolvency of LBBW pension obligations applies to commitments given before the elimination of the guarantor's liability in 2005, via the pension insurance association. All pension commitments dating from before this date are insolvency-protected through the guarantor's liability and maintenance obligation.

Other provisions.

Provisions are recognized for uncertain obligations to third parties and anticipated losses from onerous contracts. Provisions are carried at the best estimate. This is the amount required to settle the present obligation at the balance sheet date (amount that LBBW or a consolidated subsidiary would rationally pay to settle the obligation or to transfer it to a third party) and which is most likely to occur. In doing so, management included empirical values from similar transactions and may have drawn on opinions by independent experts.

The other personnel-related provisions include provisions for staff anniversaries and provisions for early retirement and partial retirement.

According to the provisions governing long service awards, an anniversary bonus is awarded to employees who have been with the Company for 10, 25, 40 and 50 years, the amount of which is guided by company or collective bargaining agreements. The corresponding anniversary provisions are calculated and set aside.

Provisions are also created for concluded partial retirement agreements. The legally required capital preservation of accrued benefits in the case of partial retirement is covered by a two-sided trustee agreement. The appropriated assets held in the custodian accounts is investment in the money market and offset against the corresponding provisions.

Similarly, provisions are created for concluded early retirement agreements.

LBBW offers its employees in the Bank and some subsidiaries a long-term account, the so-called LBBW FlexiWertkonto. It offers employees the opportunity to pay in part of their remuneration in the FlexiWertkonto, which they can use again in the form of time (withdrawal time). A two-sided trustee agreement was drawn up to secure these accrued retirement benefits as prescribed by law. Provisions are created for obligations arising from these accounts and offset against the accrued retirement benefits.

As a rule, the same risks apply to all other provisions as for the post-retirement obligations, albeit to a much lesser extent owing to the shorter obligation period.

Provisions for off-balance-sheet credit risks as well as other provisions that include provisions for restructuring and legal disputes are carried where the LBBW Group has a legal or constructive obligation from a past event where fulfilling the obligation is likely to lead to an outflow of resources embodying economic benefits and a reliable estimate of the amount of the obligation can be made. Please see the risk and opportunity report for further details of the legal risks.

Non-current provisions are discounted where the effect is material.

20. Subordinated capital.

The LBBW Group reports subordinated liabilities (e. g. borrower's note loans or issues), profit participation rights and typical silent partners' contributions under Subordinated capital. In view of the contractually agreed repayment of capital, the subordinated liabilities and profit-participation rights are classified as debt in accordance with the provisions of IAS 32. The silent partners' contributions are also recognized as debt, on account of the existence of a contractual right of termination or repayment to the investor.

In supervisory law terms, subordinated liabilities, profit participation rights and silent partners' contributions are considered to form part of own funds in accordance with the CRR.

Subordinated capital is carried at amortized cost. The amortized costs are adjusted for effects from hedge accounting. Explanations on hedge accounting can be found in the general accounting and valuation methods for the financial instruments (see Note 6).

21. Equity.

The share capital is the capital paid in by the owners of Landesbank Baden-Württemberg pursuant to Section 5 of the Landesbank Baden-Württemberg Act (Gesetz über die Landesbank Baden-Württemberg) in conjunction with Section 3 of the articles of association of Landesbank Baden-Württemberg. The following entities are holders of the share capital of LBBW:

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

The capital reserve includes the amount in excess of the (theoretical) nominal value that is achieved when issuing units (offering premium).

In addition to transfers from the net consolidated profit/loss, retained earnings include the Group's share in the unappropriated profit/loss of the consolidated subsidiaries to the extent that these profits were generated since their affiliation to the Group. In addition, the other retained earnings include the effects of the first-time adoption of IFRS (with the exception of those reported in Other income) as well as actuarial gains/losses and the associated deferred taxes in connection with the recognition of provisions for pensions. This item also includes realized gains and losses from its own credit rating (own credit spread) and the associated deferred taxes.

The effects of the fair value measurement of the AfS securities and equity investments, as well as valuation changes recognized directly in equity from investments accounted for using the equity method, are reported in Other income under the Revaluation reserve, if necessary after deduction of any deferred taxes. These gains or losses are not recognized through profit or loss until the asset is sold or written off because of an impairment. The revaluation reserve also includes the offsetting item from the recognition of deferred tax assets or liabilities on measurement differences in equity. In addition, gains/losses from the measurement of cash flow hedges include the portion of the profit or loss with no effect on the income statement, and the offsetting item from the recognition of deferred tax assets and liabilities on cash flow hedges is also reported in this item. The currency translation reserve is also included in this balance sheet item. The balance of currency translation differences arising due to capital consolidation is allocated to the currency translation reserve. These amounts arise from the translation of the annual financial statements of an economically independent entity into the Group's reporting currency. Another element of Other comprehensive income is the Measurement gain or loss from the own credit rating (own credit spread) and the opposite item from the setting aside of deferred tax assets and liabilities.

Non-controlling interests are stated as a separate subitem in equity; besides the shareholders of the parent company, other shareholders hold a stake in the equity of individual subsidiaries.

Segment reporting.

The segment reporting of the LBBW Group for the 2017 financial year is also drawn up in accordance with the provisions of IFRS 8. Following the management approach, segment reporting is therefore based on internal management reporting to the Group's Board of Managing Directors, which, in its function as the chief operating decision-maker, regularly makes decisions about the allocation of resources and the assessment of the performance of the segments on this basis.

Classification of segments.

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

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

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

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

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

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

- The **Reconciliation/Consolidation** column includes matters related solely to consolidation. In addition, this segment reconciles internal financial control data with external financial reporting.

Valuation methods.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Segment results by business area.

1 Jan. – 31 Dec. 2017 EUR million	Corporates	Capital Markets Business	Retail/ Savings Banks	Credit Investment	Corporate Items/ Reconciliation/ Consolidation	LBBW Group
Net interest income	1 076	302	292	– 31	– 52	1 587
Allowances for losses on loans and advances	– 94	– 1	– 2	0	5	– 92
Net fee and commission income	206	127	224	0	– 23	534
Net gains/losses from financial instruments measured at fair value through profit or loss	54	225	0	– 6	– 55	219
Net gains/losses from financial investments and net income/expenses from investments accounted for using the equity method[1]	79	54	6	0	24	163
Other operating income/expenses	74	8	– 2	0	21	101
Total operating income/expenses (after allowances for losses on loans and advances)	**1 396**	**716**	**518**	**– 37**	**– 81**	**2 511**
Administrative expenses	– 780	– 483	– 542	– 10	– 10	– 1 824
Guarantee commission for the State of Baden-Württemberg	0	0	0	– 61	0	– 61
Expenses for bank levy and deposit guarantee system	– 27	– 30	– 6	– 4	– 3	– 69
Net income/expenses from restructuring	– 24	– 8	– 8	0	0	– 41
Consolidated profit/loss before tax	**565**	**194**	**– 38**	**– 112**	**– 94**	**515**
Income taxes						– 97
Net consolidated profit/loss						**419**
Segment assets (EUR billion)[2]	79.8	140.4	12.1	1.8	3.6	237.7
Risk weighted assets (EUR billion)	42.3	18.9	7.4	0.1	7.1	75.7
Tied-up equity (EUR billion)	3.8	1.7	0.7	0.0	6.4	12.6
RoE (in %)	13.4	8.8	< 0			4.1
CIR (in %)	55.3	73.0	> 100			74.8

1 Net income/investments from investments accounted for using the equity method allocated to the segments and results from the disposal of such companies amount to EUR 35 million for the Corporates segment and to EUR – 5 million for Corporate Items.
2 The shares of investments accounted for using the equity method allocated to both segments amount to EUR 245 million for Corporates and EUR 0 million for Corporate Items.

1 Jan. – 31 Dec. 2016 EUR million	Corporates	Capital Markets Business	Retail/ Savings Banks	Credit Investment	Corporate Items/ Reconciliation/ Consolidation[1]	LBBW Group[1]
Net interest income	1 132	337	276	– 36	– 40	1 669
Allowances for losses on loans and advances	– 38	– 4	5	0	– 13	– 51
Net fee and commission income	222	97	218	0	– 11	527
Net gains/losses from financial instruments measured at fair value through profit or loss	15	151	0	0	– 20	146
Net gains/losses from financial investments and net income/expenses from investments accounted for using the equity method[2]	29	64	33	– 2	71	195
Other operating income/expenses	85	14	– 19	1	19	101
Total operating income/expenses (after allowances for losses on loans and advances)	**1 445**	**660**	**512**	**– 37**	**6**	**2 586**
Administrative expenses	– 744	– 483	– 543	– 9	– 36	– 1 814
Guarantee commission for the State of Baden-Württemberg	0	0	0	– 93	0	– 93
Expenses for bank levy and deposit guarantee system	– 27	– 33	– 5	– 4	– 1	– 71
Impairment of goodwill	– 379	0	0	0	0	– 379
Net income/expenses from restructuring	– 44	– 34	– 26	0	17	– 87
Consolidated profit/loss before tax	**251**	**110**	**– 61**	**– 144**	**– 14**	**142**
Income taxes						– 131
Net consolidated profit/loss						**11**
Segment assets (EUR billion)[3]	76.6	137.6	12.6	10.1	6.8	243.6
Risk weighted assets (EUR billion)	42.9	18.9	7.7	0.0	7.9	77.4
Tied-up equity (EUR billion)	3.8	1.8	0.7	0.1	6.5	12.9
RoE (in %)	5.9	5.2	< 0			1.1
CIR (in %)	51.1	80.5	> 100			74.3

1 Restatement of prior year amounts (see Note 2).
2 Net income/investments from investments accounted for using the equity method allocated to the segments and results from the disposal of such companies amount to EUR 19 million for the Corporates segment and to EUR – 6 million for Corporate Items.
3 The shares of investments accounted for using the equity method allocated to both segments amount to EUR 233 million for Corporates and EUR 0 million for Corporate Items.

Details on Corporate Items, Reconciliation and Consolidation.

EUR million	Corporate Items 1 Jan. – 31 Dec. 2017	Corporate Items 1 Jan. – 31 Dec. 2016	Reconciliation/Consolidation 1 Jan. – 31 Dec. 2017	Reconciliation/Consolidation 1 Jan. – 31 Dec. 2016[1]	Corporate Items/ Reconciliation/Consolidation 1 Jan. – 31 Dec. 2017	Corporate Items/ Reconciliation/Consolidation 1 Jan. – 31 Dec. 2016[1]
Net interest income	18	8	– 70	– 48	– 52	– 40
Allowances for losses on loans and advances	5	– 13	0	0	5	– 13
Net fee and commission income	– 2	1	– 22	– 12	– 23	– 11
Net gains/losses from financial instruments measured at fair value through profit or loss	1	– 4	– 56	– 16	– 55	– 20
Net gains/losses from financial investments and net income/expenses from investments accounted for using the equity method[2]	24	66	– 1	6	24	71
Other operating income/expenses	21	19	0	0	21	19
Total operating income/ expenses (after allowances for losses on loans and advances)	**67**	**76**	**– 148**	**– 70**	**– 81**	**6**
Administrative expenses	– 10	– 36	0	0	– 10	– 36
Expenses for bank levy and deposit guarantee system	– 3	– 1	0	0	– 3	– 1
Net income/expenses from restructuring	0	17	0	0	0	17
Consolidated profit/loss before tax	**53**	**56**	**– 148**	**– 70**	**– 94**	**– 14**
Segment assets (EUR billion)[3]	5.1	3.9	– 1.5	2.9	3.6	6.8
Risk weighted assets (EUR billion)	8.8	9.4	– 1.7	– 1.5	7.1	7.9
Tied-up equity (EUR billion)	6.6	6.7	– 0.2	– 0.1	6.4	6.5

1 Restatement of prior year amounts (see Note 2).
2 The net income/expenses from investments accounted for using the equity method allocated to the segments and the disposal gains/losses from such investments amount to EUR 35 million (previous year: EUR 19 million) in the Corporates segment and to EUR – 5 million (previous year: EUR – 6 million) in Corporate Items.
3 The shares of investments accounted for using the equity method allocated to the segments amount to EUR 245 million for the Corporates segment (previous year: EUR 233 million) and to EUR 0 million for Corporate Items (previous year: EUR 0 million).

Consolidated profit/loss before tax of the LBBW Group amounted to EUR 515 million in the 2017 financial year and was far above the previous year's result of EUR 142 million, which was defined mainly by impairment of goodwill of EUR – 379 million. The operating segments Corporates, Capital Markets Business and Retail/Savings Banks made a substantial contribution totaling EUR 721 million to consolidated profit/loss before tax in 2017. Despite higher spending on future investment, the cost/income ratio (CIR) in the LBBW Group increased only marginally to 74.8% (previous year: 74.3%). Total assets in the LBBW Group declined by EUR – 5.9 billion to EUR 237.7 billion at year-end 2017. The decline was particularly attributable to the near-complete sale of the Sealink portfolio by the manager. In contrast, financing with SME and key accounts was extended. LBBW Group's risk weighted assets fell to EUR 75.7 billion in the 2017 financial year (previous year: EUR 77.4 billion). Besides a change in methodology, this is also attributable to an improvement in the portfolio in relation to corporate customers and real estate financing.

The Corporates segment reported a far higher profit before tax of EUR 565 million (previous year: EUR 251 million). The previous year was weighed down by the non-recurring effect from impairment of goodwill of EUR – 379 million. Adjusted for this effect, income was down slightly on the previous year's figure. Although financing with SME and key accounts could be expanded, results of operations remained under pressure due to the persistently low interest rates and the strong competition. In some instances, these declines were offset by positive measurement effects and sales proceeds from the commercial investment business, as well as the gradual development of the cross-selling proceeds. The further normalization of allowances for losses on loans and advances resulted in provisioning requirements of EUR – 94 million (EUR – 38 million) for the segment. This figure remains below the long-term average, thus reflecting the good portfolio quality and favorable economic situation in LBBW's core markets. The segment was also burdened by spending on future investment, among other things, arising from the restructuring of the IT architecture and expenses arising from projects for the Bank as a whole. Consequently, administrative expenses rose moderately from EUR – 744 million to EUR – 780 million, which overall drove up the CIR slightly to 55.3% (previous year: 51.1%). The increase in segment assets from EUR 76.6 billion to EUR 79.8 billion is mainly due to the expansion of financing with key accounts. Nonetheless, risk weighted assets changed only moderately to EUR 42.3 billion (previous year: EUR 42.9 billion) and benefited from the good portfolio quality.

The consistent implementation of the realignment of the Capital Markets Business segment as customer-oriented capital markets business resulted in a pronounced increase in profit before tax to EUR 194 million in the 2017 financial year (previous year: EUR 110 million), and income improved across all customer groups. In the business with savings banks, the position as market partner with investment products was extended in particular. In the business with institutional customers, the custodian business and cash management contributed above all to the increase in income. This development was also supported by the positive performance in hedge accounting. Despite investments, arising especially in relation to the IT infrastructure and the implementation of regulatory provisions, administrative expenses were maintained at a constant level of EUR –483 million. The CIR improved from 80.5% to 73.0% on the back of the pronounced increase in income. At EUR 140.4 billion, segment assets were moderately above the previous year's figure (EUR 137.6 billion). Risk weighted assets during the 2017 financial year came to EUR 18.9 billion and thus remained at the prior-year level.

Although profit before tax in the Retail/Savings Banks segment reported a pronounced improvement of EUR 23 million, the contribution to earnings in the 2017 financial year was negative at EUR –38 million (previous year: EUR –61 million). Net interest income from the deposit-taking business continued to develop positively, driven by a strong increase in volume of business with high-net-worth customers. In addition, the fee-based business recorded growth in securities trading and in asset management, which also benefited from the positive development on the equity markets. This development was countered by a stable earnings development in the lending business and the disappearance of the non-recurring revenue from the VISA transaction in the previous year. Despite the persistently high investment in IT, above all due to the introduction of the new core banking system, strict cost management maintained administrative expenses, which amounted to EUR –542 million, at last year's level (EUR –543 million). Lower restructuring expenses on EUR –8 million (previous year: EUR –26 million) also provided relief to the segment. Thanks to this earnings performance, the CIR improved, albeit remaining above 100%. At EUR 12.1 billion, segment assets were down slightly on the previous year's figure (EUR 12.6 billion). Accordingly, risk weighted assets for the segment decreased to EUR 7.4 billion in 2017 (previous year: EUR 7.7 billion).

The Credit Investment segment was defined at year-end 2017 by the sale of the Sealink portfolio by the manager, which is almost completed and led to a considerable reduction in volume. Owing to the repayments during the course of the year and the early redemptions, the guarantee commission for the risk shield was reduced by EUR 32 million to EUR-–61 million, thus having a positive impact on the income statement. Administrative expenses of EUR –10 million were unchanged from the previous year. This led to a noticeable improvement in profit before tax to EUR –112 million (previous year: EUR –144 million). Segment assets declined substantially by EUR –8.2 billion to EUR 1.8 billion (previous year: EUR 10.1 billion), as a result of the reduction in financing and the disposal of the GPBW guarantee bond.

Profit before tax in the Corporate Items segment declined slightly over the previous year to EUR 53 million (previous year: 56 million). This was attributable to the sale of the equity investment in cellent AG and the reversal of provisions set aside from the previous year in connection with the EU restructuring. Positive contributions from the optimization of the Bank's building portfolio counteracted this development. Segment assets amounted to EUR 5.1 billion (previous year: EUR 3.9 billion). Risk weighted assets during the 2017 financial year came to EUR 8.8 billion (previous year: EUR 9.4 billion).

Reconciliation of segment results to the consolidated income statement.

In the 2017 financial year, the total of »Reconciliation/Consolidation« on the consolidated profit/loss before tax increased to EUR –148 million (previous year: EUR –70 million) and is essentially due to the following factors:

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

Disclosures at the company level.

Information on products and services.

With regard to the allocation of income to products and services required under IFRS 8.32, please refer to the explanations entitled »Notes to the income statement« in the Notes.

Segmentation according to geographical region.

The allocation of results to geographical regions is based on the head office of the branch or Group company and is as follows for the LBBW Group:

1 Jan. – 31 Dec. 2017 EUR million	Germany	Europe (excl. Germany)	America	Asia	Reconciliation/ Consolidation	LBBW Group
Total operating income/expenses (after allowances for losses on loans and advances)	2 197	131	163	24	– 4	2 511
Consolidated profit/loss before tax	283	100	128	6	– 1	515

1 Jan. – 31 Dec. 2016 EUR million	Germany	Europe (excl. Germany)	America	Asia	Reconciliation/ Consolidation	LBBW Group
Total operating income/expenses (after allowances for losses on loans and advances)	2 372	92	105	28	– 11	2 586
Consolidated profit/loss before tax	23	52	67	8	– 7	142

Notes to the income statement.

22. Net interest income.

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

EUR million	1 Jan. – 31 Dec. 2017	1 Jan. – 31 Dec. 2016
Trading derivatives	7 523	7 077
Lending and money market transactions	2 448	2 684
Hedging derivatives	1 234	1 455
Fixed-income securities and debentures	171	273
Early termination fees	59	95
Other	411	389
Interest income	**11 847**	**11 974**
Leasing business	301	307
Equities and other non-fixed-income securities	6	13
Equity investments and affiliates	32	33
Profit transfer agreements	2	5
Current income	**341**	**358**
Interest and current income	**12 187**	**12 332**
Trading derivatives	– 7 176	– 7 000
Hedging derivatives	– 1 172	– 1 395
Deposits	– 975	– 1 090
Securitized liabilities	– 582	– 539
Leasing business	– 53	– 46
Subordinated capital	– 228	– 224
Transfer of losses	– 1	– 2
Other	– 414	– 367
Interest expense	**– 10 601**	**– 10 663**
Total	**1 587**	**1 669**

Net interest income fell again moderately by EUR – 82 million compared with the previous year, especially as rates remain historically low in the eurozone. While the ECB's enduring expansive monetary policy with partly negative interest rates in LBBW's led to reduced profit on LBBW's own funds, better results were achieved in Wealth Management in particular.
The intense competition within the banking sector had a burdening effect overall, which was reflected in growing pressure on margins, especially in new business with key accounts.

In the case of financial assets in the LaR category on which valuation allowances were charged, interest of EUR 10 million (previous year: EUR 19 million) was calculated in the year under review from the increase in the present value of the receivables (unwinding in accordance with IAS 39.AG93).

Netting of treasury debentures in accordance with IAS 39.39 et seqq. resulted in interest income of EUR 0 million in the financial year (previous year: expense of EUR 2 million).

Against the background of negative interest rates, capital commitment and raising of capital also led to contrary effects, which impacted on interest income in the amount of EUR – 210 million (previous year: EUR – 87 million) in the financial year under review and on interest expense in the amount of EUR 184 million (previous year: EUR 92 million).

Net interest income from financial assets and financial liabilities not measured at fair value through profit or loss comprised the following items:

EUR million	1 Jan. – 31 Dec. 2017	1 Jan. – 31 Dec. 2016
Interest income	2 658	2 937
Interest expense	– 1 683	– 1 664
Total	**975**	**1 273**

23. Allowances for losses on loans and advances.

EUR million	1 Jan. – 31 Dec. 2017	1 Jan. – 31 Dec. 2016
Reversal of allowances for losses on loans and advances	164	218
Net gains/losses from provisions for lending business	– 14	12
Recoveries on loans and advances previously written off	14	25
Direct loan write-offs	– 24	– 80
Additions to allowances for losses on loans and advances	– 229	– 223
Other expenses for the lending business	– 3	– 4
Total	**– 92**	**– 51**

24. Net fee and commission income.

EUR million	1 Jan. – 31 Dec. 2017	1 Jan. – 31 Dec. 2016
Securities and custody business	242	230
Payments business	123	113
Brokerage business	83	90
Loans and guarantees[1]	127	117
Other	73	83
Fee and commission income	**649**	**634**
Securities and custody business	– 62	– 57
Payments business	– 27	– 23
Loans and guarantees[1]	– 10	– 10
Brokerage business	– 6	– 8
Leasing business	– 3	– 2
Other	– 7	– 7
Fee and commission expense	**– 115**	**– 107**
Total	**534**	**527**

1 Includes lending, trustee, guarantee and credit business.

On a marginal improvement in net fee and commission income, income in the deposit-taking business in particular benefited from the positive development of the equity markets and the acquisition of NordLB's fund holdings at the end of 2016. Net fee and commission income from loans and guarantees also developed positively, due to higher earnings in the guarantee business. Transaction-based fees and marginal growth in the card business also boosted earnings in payments.
Fees from the brokerage business lagged slightly behind the development of the previous year due to lower demand for life insurance policies and home loans contracts.

Other net fee and commission income mainly comprises income and expenses from asset management and factoring fees.

Net fee and commission income resulted mainly from financial assets and financial liabilities not measured at fair value through profit or loss.

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

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

EUR million	1 Jan. – 31 Dec. 2017	1 Jan. – 31 Dec. 2016
Net trading income/loss	128	176
Net income/loss from financial instruments designated at fair value	87	– 9
Net gains/losses from hedge accounting	4	– 20
Total	**219**	**146**

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Net trading income/loss.

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

EUR million	1 Jan. – 31 Dec. 2017	1 Jan. – 31 Dec. 2016
Lending business	107	– 91
Equity transactions	243	231
Foreign exchange transactions	– 35	30
Economic hedging derivatives	– 219	– 131
Interest rate transactions	44	155
Gains/losses from foreign exchange/commodity products	– 12	– 18
Total	**128**	**176**

Income from interest rate transactions and lending business is influenced by interactions and increased considerably in the year under review by a total of EUR 87 million. Lower valuation discounts for counterparty risks and positive contributions to profits from securities forward transactions resulted in higher profits.

Gains/losses from equity transactions, which resulted essentially from the certificates business, improved due to higher maturities and reinvestments with higher margins.

The decline in gains/losses from economic hedging derivatives was driven primarily by negative effects from derivatives for hedging underlying transactions allocated to financial instruments that qualify for the fair value option.

Gains/losses from foreign exchange/commodity products include gains and losses from foreign exchange spot, futures and options transactions, currency options and currency futures.

Gains/losses from foreign exchange transactions represent the effects from the conversion of foreign currency assets or foreign currency liabilities. Currency translation differences recognized in net gains/losses from financial instruments not measured at fair value through profit or loss amounted to EUR 883 million (previous year: EUR – 790 million). These were offset by currency translation differences of EUR – 917 million (previous year: EUR 820 million) for financial instruments measured at fair value through profit or loss.

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

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

EUR million	1 Jan. – 31 Dec. 2017	1 Jan. – 31 Dec. 2016
Realized gains/losses	– 12	0
Unrealized gains/losses	99	– 9
Total	**87**	**– 9**

The improved result in 2017 was supported consistently by positive measurement effects of the interest-bearing medium- to long-term liabilities. Accordingly, economic hedging derivatives feature negative remeasurement gains/losses.

Net gains/losses from hedge accounting.

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

EUR million	1 Jan. – 31 Dec. 2017	1 Jan. – 31 Dec. 2016
Portfolio fair value hedge	3	– 19
of which hedged items	– 71	339
of which hedging instruments	74	– 358
Micro fair value hedge	1	– 2
of which hedged items	– 53	– 23
of which hedging instruments	54	22
Total	**4**	**– 20**

26. Net gains/losses from financial investments.

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

EUR million	1 Jan. – 31 Dec. 2017	1 Jan. – 31 Dec. 2016
Net gains/losses on disposal	141	186
of which securities	54	91
of which equity investments	86	95
Impairment	– 8	– 3
Net gains/losses from financial investments (AfS)	**133**	**183**
Total	**132**	**183**

The relevant market opportunities provided by volatile markets were utilized in the previous year. The positive earnings contributions from the securities could not be replicated to the same extent in the past financial year.

Net income/expenses from the sale of equity investments remained moderately below the prior-year value. Shares in the card service provider ConCardis GmbH were sold in the past financial year, among other things. Net gains/losses from financial investments were boosted, among other things, by the completion of the sale of cellent AG at the start of 2016. Furthermore, there was no repeat of the positive contributions from subsequent purchase price adjustments.

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

Net income/expenses from investments accounted for using the equity method comprise the contributions to profit from joint ventures recognized through profit or loss and associates accounted for using the equity method. In addition to the pro rata profits/losses for the period, contributions to profits attributable to the updating of the hidden reserves and charges disclosed within the scope of the purchase price allocation, are recognized in this item. Changes recognized directly in equity in investments accounted for using the equity method are recognized directly in equity.

EUR million	1 Jan. – 31 Dec. 2017	1 Jan. – 31 Dec. 2016
Current income	19	27
Impairment	– 13	– 19
Reversals of impairment losses	16	9
Net gains/losses from investments in associates	**22**	**18**
Current expenses	– 5	– 1
Current income	13	1
Impairment	0	– 5
Net gains/losses from shares in joint ventures	**9**	**– 5**
Total	**31**	**13**

28. Other operating income/expenses.

The key components of other operating income/expenses are income or expenses from investment property, leasing business and provisions.

EUR million	1 Jan. – 31 Dec. 2017	1 Jan. – 31 Dec. 2016
Disposal of inventories	154	255
Reversal of other provisions	32	72
Revenues from property services	16	16
Income from cost refunds by third parties	27	35
Management of other property portfolios	1	1
Operating leases	21	25
Fixed assets and intangible assets	1	2
Rental income from investment property	50	48
Income from the disposal of investment property	13	22
Net income from the fair value measurement of investment property	40	24
Foreign currency translation on investment property	–2	7
Miscellaneous operating income	95	83
Other operating income	**448**	**591**
Disposal of inventories	–138	–227
Additions to other provisions	–85	–99
Impairment of inventories	0	–1
Management of other property portfolios	0	–1
Operating leases	–7	–7
Operating expenses for leased properties	–16	–13
Net losses from the fair value measurement of investment property	–11	–14
Miscellaneous operating expenses	–90	–128
Other operating expenses	**–347**	**–490**
Total	**101**	**101**

The income and expenses from the disposal of inventories primarily resulted from the sale of land and buildings, as well as development measures.

As in the previous year, the current year was characterized by the net addition of provisions, primarily in connection with legal risks. On the other hand, gains/losses from the disposal of certain assets intended for sale improved significantly by EUR 32 million (previous year: EUR 0 million), which is set out in other operating income.

Net income/expenses from investment property remained unchanged from the previous year.

29. Administrative expenses.

The LBBW Group's administrative expenses comprise staff costs and other administrative expenses, as well as depreciation and write-downs of property and equipment and amortization and write-downs of intangible assets.

EUR million	1 Jan. – 31 Dec. 2017	1 Jan. – 31 Dec. 2016
Wages and salaries	–716	–734
Expenses for pensions and benefits	–132	–130
Social security contributions	–113	–115
Other staff costs	–65	–58
Staff costs	**–1 026**	**–1 036**
IT costs	–336	–334
Legal and consulting expenses	–99	–99
Expenses from operating leases	–44	–39
Cost of premises	–51	–54
Association and other contributions	–30	–31
Advertising, public relations and representation costs	–26	–26
Audit costs	–13	–13
Miscellaneous administrative expenses	–92	–92
Other administrative expenses	**–691**	**–688**
Amortization and write-downs of intangible assets[1]	–71	–43
Depreciation and write-downs of property and equipment[1]	–36	–47
Depreciation, amortization and write-downs	**–108**	**–89**
Total	**–1 824**	**–1 814**

1 This includes scheduled and unscheduled write-downs. The partial amount of the unscheduled write-downs can be found in Notes 40 and 42.

The reduction in the number of employees resulted in lower staff costs.

Despite comprehensive expenditure on restructuring the IT architecture, for example in the form of rolling out a new core banking system in April 2017, and with a view to increased digitalization, other administrative expenses remained unchanged from the previous year. It must be taken into account here that the high level of investment over the long term was maintained in 2016.

Miscellaneous administrative expenses included, among other things, postage, transportation and communication costs of EUR –15 million (previous year: EUR –18 million) as well as office and motor vehicle expenses of EUR –15 million (previous year: EUR –14 million.

For further explanations on leasing business, please see Note 68.

The noticeably increase in depreciation, write-downs and impairment losses was attributable to higher amortization and write-downs of intangible assets resulting downstream from prior-year investments. Lower depreciation and write-downs of property and equipment were unable to offset this effect completely.

Expenses for pensions and other benefits included:

EUR million	1 Jan. – 31 Dec. 2017	1 Jan. – 31 Dec. 2016
Expenses for defined benefit obligations	**–123**	**–124**
Net interest income from defined benefit plans	–54	–63
Current service cost	–70	–61
Other income and expenses, including income from the release of provisions for pension plans	1	0
Other expenses for pensions and benefits	**–7**	**–5**
Expenses for defined contribution obligations	**–2**	**–2**
Total	**–132**	**–130**

In addition to the expenses for pensions, LBBW Group paid EUR –59 million (previous year: EUR –60 million) in the 2017 financial year into the German pension fund for employees and recorded this as an expense under social security contributions.

The fee of EUR –13 million (previous year: EUR –13 million) for audit costs comprised the following items:

EUR million	1 Jan. – 31 Dec. 2017	1 Jan. – 31 Dec. 2016
Audit services	–11	–8
Other audit-related services	–1	–2
Other services	–1	–3
Total	**–13**	**–13**

The audit services related above all to the audits of the annual financial statements and the consolidated financial statements of the parent company, as well as various audits of the annual financial statements of its subsidiaries including mandatory extensions of contract and key points of the audit agreed with the Supervisory Board. Audit reviews of interim financial statements and project-related audits of IT-supported accounting-related systems and project-related audits on the introduction of new accounting-related standards were integrated in the audit.

The other audit-related services concern the issue of a comfort letter in conjunction with the issue of debentures and mandatory or contractually-agreed audits, such as the audit pursuant to Section 16j (2) sentence 2 of the German Act Establishing the Federal Financial Supervisory Authority (Gesetz über die Bundesanstalt für Finanzdienstleistungsaufsicht – FinDAG), the audit pursuant to Section 36 German Securities Trading Act (Wertpapierhandelsgesetz - WpHG) and Section 68 (7) of the German Capital Investment Code (Kapitalanlagegesetzbuch- KAGB), and the audit for assessing the contribution for the bank-related guarantee system of the Sparkassen-Finanzgruppe, which is recognized as a deposit guarantee system under Section 5 (1) of the German Deposit Guarantee Act (Einlagensicherungsgesetz - EinSiG).

The tax advisory services comprise services rendered in connection with the preparation of tax returns.

Other services include quality assurance activities and training courses.

30. Net income/expenses from restructuring.

Expenses for restructuring measures are reported in this item. Provisions are only recognized if the general criteria for creating provisions in accordance with IAS 37 are fulfilled.

EUR million	1 Jan. – 31 Dec. 2017	1 Jan. – 31 Dec. 2016
Reversal of provisions for restructuring measures	3	20
Additions to restructuring provisions	– 43	– 101
Ongoing expenses for restructuring measures	0	– 7
Total	**– 41**	**– 87**

Net income/expenses from restructuring relates mainly to the creation of provisions for restructuring in the back office units concerning the lending business and to programs to enhance the efficiency of the other operating processes.

31. Income taxes.

Income and expenses from income taxes are broken down as follows:

EUR million	1 Jan. – 31 Dec. 2017	1 Jan. – 31 Dec. 2016
Current income taxes in the reporting period	– 70	– 82
Current income taxes from previous years	– 15	5
Current income taxes	**– 85**	**– 76**
of which decrease in actual income tax expense from utilization of previously unrecognized loss carryforwards and tax credits	38	22
Deferred income taxes	**– 12**	**– 55**
of which deferred income tax expense/income from change in temporary differences	15	13
of which deferred tax expense/income from change in tax rates	– 19	– 2
of which deferred tax expense from write-downs or the reversal of earlier writedowns	– 3	– 34
of which decrease in deferred income tax expense from previously unrecognized loss carryforwards and tax credits	34	24
Total	**– 97**	**– 131**

The following reconciliation shows the relationship between reported and expected income taxes:

EUR million	1 Jan. – 31 Dec. 2017	1 Jan. – 31 Dec. 2016
Consolidated profit/loss before tax	**515**	**142**
Applicable tax rate	30.42 %	30.42 %
Expected income taxes	**– 157**	**– 43**
Tax effects		
from non-deductible operating expenses	– 49	– 21
from value adjustments	61	– 18
from taxes from the previous year recorded in the financial year	– 19	9
from permanent tax effects	3	– 103
from changes in tax rates	– 19	– 2
from differing tax rates affecting on deferred taxes as shown in profit or loss	36	6
from other differences	12	– 7
from tax-free income	35	48
Total	**– 97**	**– 131**

The applicable tax rate for the reconciliation is calculated as the corporate income tax rate of 15.0 % applicable in Germany at the reporting date (previous year: 15.0 %), plus the solidarity surcharge of 5.5 % (previous year: 5.5 %) and the trade tax rate (average: 14.59 %, previous year: 14.59 %) depending on the relevant multiplier (Hebesatz). This results in a total domestic tax rate of 30.42 % for the Group (previous year: 30.42 %).

The tax effect of non-deductible operating expenses is influenced, in particular, by the bank levy.

The item Tax effects from value adjustments mainly includes the capitalization of deferred tax assets on tax loss carryforwards for the New York branch.

The tax effects from differing tax rates affecting on deferred taxes as shown in profit or loss are attributable mainly to the New York branch and to the tax reform in the United States effective 1 January 2018.

Tax-free income includes in particular effects from the disposal of Group companies and tax-free dividend income. In addition, effects from the tax regulations on the interest expense/income of the New York branch are included.

The volume of tax loss and interest carryforwards, as well as the installments for which deferred tax assets are not recognized or for which value adjustments were made, are shown in the following table. It is stated whether the loss and interest carryforwards not recognized can still be used in subsequent years according to the relevant tax law. Loss and interest carryforwards in companies subject to tax in Germany can be used for an indefinite period.

EUR million	31 Dec. 2017	31 Dec. 2016
Loss and interest carryforwards (total)	5 840	6 264
of which loss and interest carryforwards for which deferred tax assets were created	2 188	2 214
of which loss and interest carryforwards for which no deferred tax assets were recognized	3 652	4 050
of which expire in 2017 and thereafter	56	459
of which non-forfeitable	3 596	3 591
Unrecognized temporary differences at the balance sheet date	68	91

Deferred tax assets of EUR 7 million (previous year: EUR 5 million) were recognized for Group companies that incurred a tax loss in the current or previous financial year that depends on the realization of future taxable results that are higher than the impact on earnings from the reversal of existing to taxable temporary differences. The approach is based on a tax planning calculation for the respective company or for the consolidated group.

Deferred tax assets are potential tax benefits arising from temporary differences between the carrying amounts of the assets and liabilities in the IFRS consolidated balance sheet and the national tax base. Deferred income tax liabilities are potential income taxes payable arising from temporary differences between the carrying amounts of assets and liabilities in the IFRS balance sheet and the national tax base.

Deferred tax assets and liabilities were recognized in connection with the following items:

	Deferred tax assets		Deferred tax liabilities	
EUR million	2017	2016	2017	2016
Assets				
Loans and advances (including allowances for losses on loans and advances)	51	463	– 779	– 22
Financial assets measured at fair value through profit or loss	2 447	3 831	– 57	– 1 981
Financial investments	44	121	– 27	– 58
Intangible assets	3	3	– 23	– 5
Property and equipment/investment property	20	18	– 87	– 90
Other assets	8	9	– 53	– 107
Equity and liabilities				
Liabilities	722	34	– 348	– 771
Financial liabilities measured at fair value through profit or loss	0	2	– 1 793	– 1 381
Provisions	605	602	– 1	– 2
Other liabilities	54	72	– 111	– 78
Loss and interest carryforwards	316	348	0	0
Outside basis differences	0	0	– 3	– 3
Net amount	– 3 254	– 4 466	3 254	4 466
Total	**1 016**	**1 037**	**– 28**	**– 31**
Change in the balance from deferred taxes	**– 17**	**9**		
of which changes recognized in profit or loss	– 12	– 55		
of which from revaluation reserve (financial investments - gains/losses on financial assets (AfS))	2	– 11		
of which measurement gains/losses of financial liabilities	4	4		
of which retained earnings (provisions - actuarial gains/losses)	– 5	68		
of which other changes recognized directly in equity	– 6	4		

In the financial year, the revaluation reserve (financial investments, gains/losses on financial assets AfS) recognized tax effects totaling EUR 1 million (previous year: EUR – 5 million), which include deferred taxes of EUR 2 million (previous year: EUR – 11 million) and actual taxes of EUR – 1 million (previous year: EUR 6 million).

No deferred tax liabilities were recognized for taxable temporary differences of EUR 4 million (previous year: EUR 10 million) from shares in subsidiaries and joint ventures, since a reversal of the temporary differences is not expected in the near future.

Notes to the balance sheet.

32. Cash and cash equivalents.

EUR million	31 Dec. 2017	31 Dec. 2016
Balances with central banks	22 565	13 346
Cash	164	186
Total	**22 729**	**13 532**

Balances with central banks included balances with Deutsche Bundesbank of EUR 17 410 million (previous year: EUR 9 767 million).

33. Loans and advances to banks.

Breakdown by business type.

EUR million	31 Dec. 2017	31 Dec. 2016
Public-sector loans	26 462	25 795
Current account claims	1 015	985
Securities repurchase transactions	10 148	7 676
Other loans	2 340	2 043
Borrower's note loans	6	50
Overnight and term money	7 189	1 209
Mortgage loans	298	199
Other receivables	725	1 331
Total	**48 184**	**39 288**
of which to central counterparties	4 598	5 042

Breakdown by region.

EUR million	31 Dec. 2017	31 Dec. 2016
Banks within Germany	33 842	32 438
Banks outside Germany	14 341	6 849
Total	**48 184**	**39 288**

The ongoing strategic realigning of liquidity management led to continued shifts between individual balance sheet items. In this context, there was an increase in the volume of loans and advances to customers and banks and deposits from customers and banks. This affected mainly overnight and term money. On the other hand, the volume of the financial assets or liabilities measured at fair value through profit or loss declined.

34. Loans and advances to customers.

Breakdown by business type.

EUR million	31 Dec. 2017	31 Dec. 2016
Other loans	22 862	26 982
Mortgage loans	30 506	30 322
Public-sector loans	17 479	17 888
Receivables from finance leases	5 367	4 941
Transmitted loans	3 199	3 117
Securities repurchase transactions	10 830	12 336
Current account claims	2 761	3 359
Overnight and term money	5 599	4 892
Borrower's note loans	5 413	3 712
Other receivables	4 316	3 683
Total	**108 332**	**111 232**
of which to central counterparties	2 220	5 597

Breakdown by region.

EUR million	31 Dec. 2017	31 Dec. 2016
Customers within Germany	76 520	74 317
Customers outside Germany	31 812	36 915
Total	**108 332**	**111 232**

The sale of the Sealink Portfolio by the manager, among other things, played a decisive part in reducing the portfolio. The portfolio of public-sector loans was reduced through the repayment of the guarantee financing loans to Sealink and by the repayment of the junior loan to Sealink for the other loans. Adjusted for this effect, loans and advances to customers increased, with business in particular with SMEs and large customers being expanded.

The item Other loans contained mainly syndicated loans in the amount of EUR 5 689 million (previous year: EUR 7 768 million) and corporate finance not secured by mortgages.

For explanations on leasing business, see Note 68.

35. Allowances for losses on loans and advances.

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

	Specific/collective valuation allowance			Portfolio valuation allowance		
EUR million	Loans and advances to banks	Loans and advances to customers	of which from finance leases	Loans and advances to banks	Loans and advances to customers	of which from finance leases
Balance as at 1 January 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**

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

Please refer to Note 49 for explanations on provisions for credit risks. For explanations on leasing business, see Note 68.

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

EUR million	31 Dec. 2017	31 Dec. 2016
Trading assets	28 698	46 648
Financial assets designated at fair value	732	750
Positive fair values from derivative hedging instruments	1 956	2 777
Total	**31 386**	**50 175**

Trading assets and financial assets designated at fair value.

EUR million	Trading assets		Financial assets designated at fair value	
	31 Dec. 2017	31 Dec. 2016	31 Dec. 2017	31 Dec. 2016
Debentures and other fixed-income securities	6178	9014	110	97
Money market instruments	382	944	0	0
Bonds and debentures	5796	8070	110	97
Equities and other non-fixed-income securities	1876	689	215	203
Equities	718	402	0	0
Investment fund units	1157	286	214	201
Other securities	0	0	0	2
Other	2897	13020	408	450
Borrower's note loans	2704	3007	408	425
Other money market transactions	34	8879	0	0
Other loans and receivables			0	24
Miscellaneous	159	1135	0	0
Positive fair values from derivative financial instruments	17747	23925		
Total	**28698**	**46648**	**732**	**750**

The decline in trading assets was mainly due to maturing overnight and term money with national and international banks in the course of realigning the liquidity management (see Note 33), which are shown in Other money market transactions. The volume of bonds and debentures in the trading portfolio fell essentially due to maturities and sales of domestic bonds. The positive fair values from trading derivatives were also reduced as a result of effects driven by interest rates.

The item contained EUR 110 million (previous year: EUR 291 million) in total collateral provided with the protection buyer's right to resell or pledge.

Trading assets and money market instruments, bonds and debentures designated at fair value were divided between public-sector and other issuers as follows:

EUR million	Trading assets		Financial assets designated at fair value	
	31 Dec. 2017	31 Dec. 2016	31 Dec. 2017	31 Dec. 2016
Marketable and listed securities	6449	7153	74	58
Marketable and unlisted securities	1604	2550	250	240
Non-marketable securities	0	0	0	1
Total	**8054**	**9703**	**324**	**300**

Trading assets and money market instruments, bonds and debentures designated at fair value were divided between public-sector and other issuers as follows:

EUR million	Trading assets		Financial assets designated at fair value	
	31 Dec. 2017	31 Dec. 2016	31 Dec. 2017	31 Dec. 2016
Public-sector issuers	475	447	26	27
Other issuers	5703	8567	84	70
Total	**6178**	**9014**	**110**	**97**

Positive fair values from derivative hedging instruments.

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

EUR million	31 Dec. 2017	31 Dec. 2016
Positive fair values from portfolio fair value hedges	1 560	2 263
Positive fair values from micro fair value hedges	396	514
Total	**1 956**	**2 777**

The positive fair values from derivative hedging instruments were broken down by hedged items as follows:

EUR million	31 Dec. 2017	31 Dec. 2016
Assets		
Derivative hedging instruments on financial assets	6	– 1
AfS category	5	– 1
Equity and liabilities		
Derivative hedging instruments on deposits from banks	20	24
Derivative hedging instruments on deposits from customers	92	141
Derivative hedging instruments on securitized liabilities	35	44
Derivative hedging instruments on subordinated liabilities	242	306
Derivative hedging instruments on portfolio fair value hedges	1 560	2 263
Total	**1 956**	**2 777**

37. Financial investments.

EUR million	31 Dec. 2017	31 Dec. 2016
Debentures and other fixed-income securities	22 071	24 788
Money market instruments	2 046	366
Bonds and debentures	20 025	24 422
Equities and other non-fixed-income securities	14	14
Other securities	14	14
Equity investments	704	785
Shares in affiliates	60	106
Total	**22 848**	**25 693**

The reduction in financial investments was attributable essentially to the decline in debentures and other fixed-income securities in the loans and receivables (LaR) category. The disposal of the guarantee bond of GPBW GmbH & Co. KG in the amount of EUR – 4.3 billion in connection with the sale of the Sealink portfolios by the manager was at the forefront here.

Financial investments included EUR 1 376 million (previous year: EUR 1 206 million) in total collateral provided where the protection buyer has the right to resell or pledge.

The securities held as financial investments were classified as follows by marketability and stock exchange listing items:

EUR million	31 Dec. 2017	31 Dec. 2016
Marketable and listed securities	19 766	24 169
Marketable and unlisted securities	2 298	613
Non-marketable securities	20	20
Total	**22 085**	**24 802**

Money market instruments, bonds and debentures in financial investments were divided between public-sector and other issuers as follows:

EUR million	31 Dec. 2017	31 Dec. 2016
Public-sector issuers	7 471	14 381
Other issuers	14 599	10 407
Total	**22 071**	**24 788**

Changes in non-current financial investments in the financial years 2017 and 2016 are shown in the table below:

EUR million	Equity investments	Shares in affiliates	Total
Historical cost			
Balance as at 1 January 2017	700	168	868
Additions	4	0	4
Disposals	-202	-98	-299
Currency translation differences	-7	0	-7
Reclassifications	-5	5	0
Changes in the scope of consolidation	0	5	5
Balance as at 31 December 2017	**490**	**81**	**571**
Depreciation, amortization and write-downs			
Balance as at 1 January 2017	-186	-109	-295
Write-downs in the financial year	-8	0	-8
Disposals	92	59	152
Currency translation differences	1	0	1
Reclassifications	3	-3	0
Changes in the scope of consolidation	0	-4	-4
Balance as at 31 December 2017	**-97**	**-57**	**-154**
Changes in fair value			
Balance as at 1 January 2017	271	46	317
Changes in fair value	62	18	80
Currency translation differences	1	0	1
Transfers to income statement	-18	-33	-51
Reclassifications	-5	5	0
Balance as at 31 December 2017	**311**	**36**	**346**
Carrying amount as at 31 December 2017	**704**	**60**	**763**

EUR million	Equity investments	Shares in affiliates	Total
Historical cost			
Balance as at 1 January 2016	699	242	941
Additions	19	2	20
Disposals	-50	-45	-95
Currency translation differences	2	0	2
Changes in the scope of consolidation	31	-31	0
Balance as at 31 December 2016	**700**	**168**	**868**
Depreciation, amortization and write-downs			
Balance as at 1 January 2016	-190	-131	-321
Write-downs in the financial year	-2	-1	-3
Disposals	22	10	32
Reclassifications	0	0	-1
Changes in the scope of consolidation	-15	13	-2
Balance as at 31 December 2016	**-186**	**-109**	**-295**
Changes in fair value			
Balance as at 1 January 2016	350	53	403
Changes in fair value	-68	-6	-75
Transfers to income statement	-13	0	-13
Changes in the scope of consolidation	1	0	1
Reclassifications	1	0	1
Balance as at 31 December 2016	**271**	**46**	**317**
Carrying amount as at 31 December 2016	**785**	**106**	**891**

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

EUR million	31 Dec. 2017	31 Dec. 2016
Associates	240	226
Joint ventures	4	7
Total	**245**	**233**

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

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

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

- Sales negotiations for some real estate properties allocated to the Corporates and Corporate Items reporting segments were opened in the second half of 2016. Some of these properties were sold in the first half of 2017. One property was sold after the reporting date of 30 June 2017. The rest of the properties were sold in the third quarter of 2017.
- In addition, sales negotiations for a non-consolidated equity investment started in the second half of 2016. The sale of this equity investment took place after the reporting date of 30 June 2017. This affects the Corporates Items reporting segment.
- Sales negotiations for an investment property started in the first half of 2017. The sale of this property is expected to take place in the first half of 2018. This affects the Corporate Items segment.
- Sales negotiations for an investment property allocated to the Corporates reporting segment started in December 2017. This property was sold already after the balance sheet date of 31 December 2017.

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

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

EUR million	31 Dec. 2017	31 Dec. 2016
Assets		
Financial investments	0	28
Investment property	104	52
Property and equipment	0	111
Total	**104**	**191**

40. Intangible assets.

The changes in intangible assets are shown in the following tables for 2017 and 2016:

EUR million	Software acquired	Goodwill	Advance payments and acquisition costs for development and preparation	Other intangible assets	Intangible assets developed inhouse	Total
Historical cost						
Balance as at 1 January 2017	790	0	69	88	20	968
Additions	44	0	14	0	8	67
Reclassifications	47	0	-64	0	17	0
Disposals	-24	0	0	0	0	-24
Balance as at 31 December 2017	**857**	**0**	**20**	**88**	**46**	**1 010**
Amortization and impairment losses/reversals of impairment losses						
Balance as at 1 January 2017	-675	0	0	-33	-11	-719
Scheduled amortization	-56	0	0	-4	-9	-69
Unscheduled write-downs	-2	0	0	0	0	-2
Disposals	24	0	0	0	0	24
Balance as at 31 December 2017	**-710**	**0**	**0**	**-37**	**-19**	**-766**
Carrying amounts						
Balance as at 1 January 2017	115	0	69	55	10	249
Balance as at 31 December 2017	147	0	20	51	27	244

EUR million	Software acquired	Goodwill	Advance payments and acquisition costs for development and preparation	Other intangible assets	Intangible assets developed inhouse	Total
Historical cost						
Balance as at 1 January 2016	725	933	51	49	15	1 773
Currency translation differences	-1	0	0	0	0	-1
Additions	34	0	55	40	2	130
Reclassifications	33	0	-36	0	3	0
Disposals	0	-933	0	0	0	-934
Balance as at 31 December 2016	**790**	**0**	**69**	**88**	**20**	**968**
Amortization and impairment losses/reversals of impairment losses						
Balance as at 1 January 2016	-640	-553	0	-31	-8	-1 231
Currency translation differences	1	0	0	0	0	1
Scheduled amortization	-37	0	0	-3	-3	-43
Unscheduled write-downs	0	-379	0	0	0	-379
Disposals	0	933	0	0	0	934
Balance as at 31 December 2016	**-675**	**0**	**0**	**-33**	**-11**	**-719**
Carrying amounts						
Balance as at 1 January 2016	85	379	51	18	8	541
Balance as at 31 December 2016	115	0	69	55	10	249

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

Intangible assets of EUR 170 million (previous year: EUR 142 million) had a remaining useful life of more than 12 months as at the reporting date.

Goodwill.

EUR million	Corporates 2017	Corporates 2016	Total 2017	Total 2016
Balance as at 1 January	0	379	0	379
Impairment	0	-379	0	-379
Balance as at 31 December	**0**	**0**	**0**	**0**

Given that the goodwill still remaining in the amount of EUR 379 million was written down in full in the 2016 financial year, no more goodwill was capitalized in the current financial year.

41. Investment property.

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

EUR million	2017	2016
Carrying amount as at 31 December	574	649
Restatement of prior year amounts	0	13
Carrying amount as at 1 January	**574**	**663**
Additions	6	6
Disposals	-8	-47
Changes in the scope of consolidation	78	0
Transfer to non-current assets or disposal groups held for sale	-107	-72
Currency translation differences	-14	4
Changes in fair value from assets (through profit or loss)	25	10
Transfers out of/into inventories and property and equipment	0	10
Carrying amount as at 31 December	**554**	**574**

Investment property of EUR 554 million (previous year: EUR 574 million) had a remaining useful life of more than 12 months as at the reporting date.

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42. Property and equipment.

The following table shows the changes in property and equipment in the year under review and the previous year:

EUR million	Land and buildings	Technical equipment and machinery	Operating and office equipment	Advance payments and assets under construction	Leased assets under finance leases	Leased assets under operating leases	Total
Historical cost							
Balance as at 1 January 2017	**874**	**138**	**271**	**0**	**9**	**254**	**1 547**
Currency translation differences	-1	0	0	0	0	0	-1
Additions	10	0	7	0	0	3	21
Reclassifications	-1	0	0	0	0	1	0
Disposals	-1	-7	-24	0	0	0	-33
Balance as at 31 December 2017	**880**	**132**	**255**	**1**	**9**	**258**	**1 535**
Amortization and impairment losses/reversals of impairment losses							
Balance as at 1 January 2017	**-563**	**-123**	**-189**	**0**	**-7**	**-158**	**-1 040**
Currency translation differences	0	0	0	0	0	0	1
Scheduled amortization	-20	-3	-12	0	-1	-7	-43
Reclassifications	0	0	0	0	0	-1	0
Disposals	1	7	21	0	0	0	30
Balance as at 31 December 2017	**-582**	**-119**	**-180**	**0**	**-7**	**-165**	**-1 053**
Carrying amounts							
Balance as at 1 January 2017	311	15	82	0	2	96	507
Balance as at 31 December 2017	299	13	75	1	2	93	482

EUR million	Land and buildings	Technical equipment and machinery	Operating and office equipment	Advance payments and assets under construction	Leased assets under finance leases	Leased assets under operating leases	Total
Historical cost							
Balance as at 31 December 2015	1 102	138	305	6	10	267	1 828
Restatement of prior year amounts	-9	0	0	0	0	0	-9
Balance as at 1 January 2016	**1 093**	**138**	**305**	**6**	**10**	**267**	**1 819**
Currency translation differences	2	0	-1	0	0	0	1
Additions	2	1	9	0	0	1	12
Reclassifications	9	1	-21	-6	0	12	-5
Disposals	-60	-1	-20	0	-1	0	-81
Transfers to non-current assets and disposal groups held for sale	-173	0	0	0	0	-26	-199
Balance as at 31 December 2016	**874**	**138**	**271**	**0**	**9**	**254**	**1 547**
Amortization and impairment losses/reversals of impairment losses							
Balance as at 31 December 2015	-659	-120	-210	0	-7	-162	-1 158
Restatement of prior year amounts	3	0	0	0	0	0	3
Balance as at 1 January 2016	**-657**	**-120**	**-210**	**0**	**-7**	**-162**	**-1 155**
Currency translation differences	0	0	1	0	0	0	0
Scheduled amortization	-29	-3	-14	0	-1	-7	-54
Reclassifications	-6	0	14	0	0	-7	1
Disposals	60	1	19	0	1	0	80
Transfers to non-current assets and disposal groups held for sale	70	0	0	0	0	18	88
Balance as at 31 December 2016	**-563**	**-123**	**-189**	**0**	**-7**	**-158**	**-1 040**
Carrying amounts							
Balance as at 1 January 2016	436	18	95	6	3	105	664
Balance as at 31 December 2016	311	15	82	0	2	96	507

Amortization and write-downs (both scheduled and unscheduled) are recognized under the Depreciation of property and equipment item in Administrative expenses.

As at the reporting date, property and equipment in the amount of EUR 423 million (previous year: EUR 434 million) had a remaining useful life of more than 12 months.

43. Income tax assets.

EUR million	31 Dec. 2017	31 Dec. 2016
Current income tax assets	92	116
of which in Germany	86	111
of which outside Germany	6	5
Deferred income tax assets	1 016	1 037
Total	**1 108**	**1 153**

Of the current income tax assets, EUR 92 million (previous year: EUR 116 million) is due within one year. Deferred income tax assets amounting to EUR 1 016 million (previous year: EUR 1 037 million) have a term of over 12 months.

For a detailed description of income tax assets, see Note 31.

44. Other assets.

EUR million	31 Dec. 2017	31 Dec. 2016
Inventories	447	333
Receivables from tax authorities	39	31
Other miscellaneous assets	1 089	497
Total	**1 575**	**861**

Other assets included assets amounting to EUR 408 million (previous year: EUR 219 million) with a remaining useful life of more than 12 months.

Borrowing costs of EUR 1 million (previous year: EUR 1 million) were capitalized (further details can be found in Note 18).

The inventories can be broken down as follows:

EUR million	31 Dec. 2017	31 Dec. 2016
Land and land rights, with unfinished buildings	139	118
Work in progress and development measures	71	76
Land and land rights, with finished buildings	2	1
Land and land rights, without buildings	112	47
Other inventories	124	91
Total	**447**	**333**

The carrying amount of inventories recognized at fair value less costs to sell was EUR 28 million (previous year: EUR 15 million).

The carrying amount of inventories pledged as collateral for liabilities amounted to EUR 90 million (previous year: EUR 53 million).

Scheduled and unscheduled impairments are reported under the item Other operating income/expenses.

LBBW recognizes precious metal portfolios, among other things, under Other inventories.

45. Deposits from banks.

Breakdown by business type.

EUR million	31 Dec. 2017	31 Dec. 2016
Securities repurchase transactions	3 276	3 298
Transmitted loans	25 540	23 880
Borrower's note loans	3 679	4 125
Overnight and term money	24 207	7 359
Public-sector registered covered bonds issued	718	697
Current account liabilities	2 028	2 655
Mortgage-backed registered covered bonds issued	300	268
Other liabilities	2 149	2 287
Total	**61 895**	**44 568**
of which to central counterparties	993	1 393

Breakdown by region.

EUR million	31 Dec. 2017	31 Dec. 2016
Banks within Germany	45 503	39 031
Banks outside Germany	16 392	5 537
Total	**61 895**	**44 568**

The increase in overnight and term money was mainly associated with the ongoing strategic realigning of liquidity management (see Note 33).

46. Deposits from customers.

Breakdown by business type.

EUR million	31 Dec. 2017	31 Dec. 2016
Current account liabilities	41 464	34 422
Overnight and term money	21 542	15 226
Borrower's note loans	1 903	2 026
Securities repurchase transactions	1 445	5 038
Public-sector registered covered bonds issued	3 164	3 646
Savings deposits	6 370	6 979
Mortgage-backed registered covered bonds issued	716	783
Other liabilities	2 811	2 521
Total	**79 415**	**70 641**
of which to central counterparties	900	3 677

Breakdown by region.

EUR million	31 Dec. 2017	31 Dec. 2016
Customers within Germany	68 257	60 748
Customers outside Germany	11 158	9 893
Total	**79 415**	**70 641**

Owing to the adjustments in liquidity management (see Note 33), overnight and term money in particular increased, despite the disposal of the funds pledged as cash collateral for the risk shield by the State of Baden-Württemberg and the current account liabilities (see financial position within the scope of the business development).

47. Securitized liabilities.

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

EUR million	31 Dec. 2017	31 Dec. 2016
Issued debentures	31 584	28 599
Mortgage-backed covered bonds	9 591	9 129
Public-sector covered bonds	4 561	4 042
Other debentures	17 432	15 429
Other securitized liabilities	12 848	5 743
Total	**44 432**	**34 343**

Short-term funding via securitized money market transactions was also increased by EUR 7.1 billion in the course of realigning the liquidity management. With regard to other debentures, the new issuance of bonds and debentures exceeded repayments and maturities, thus increasing the portfolio volume. Two issues essentially were responsible for this, the first being the EUR 750 million green bond issued by LBBW.

During the period under review, new issues, essentially short-dated money market paper, with a nominal volume of EUR 651 747 million (previous year: EUR 508 852 million) were issued. Initial sales may fall substantially short of the issued nominal volume. During the same period the volume of buybacks amounted to a nominal amount of EUR 16 952 million (previous year: EUR 5 585 million) and the volume of repayments to a nominal of EUR 393 623 million (previous year: EUR 225 621 million)

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

EUR million	31 Dec. 2017	31 Dec. 2016
Trading liabilities	21 882	63 090
Financial liabilities designated at fair value	2 726	2 768
Negative fair values from derivative hedging instruments	3 315	3 989
Total	**27 922**	**69 846**

Trading liabilities and financial liabilities designated at fair value.

	Trading liabilities		Financial liabilities designated at fair value	
EUR million	31 Dec. 2017	31 Dec. 2016	31 Dec. 2017	31 Dec. 2016
Negative fair values from trading derivatives and economic hedging derivatives	15 493	21 394		
Money market transactions	142	28 856	83	94
Securitized liabilities	4 874	11 464	930	1 114
Delivery obligations from short sales of securities	1 289	1 349		
Borrower's note loans	83	25	687	697
Subordinated liabilities			462	278
Other	1	2	563	585
Total	**21 882**	**63 090**	**2 726**	**2 768**

The reduction in trading liabilities was essentially the result of the ongoing adjustments to the liquidity management (see Note 33). This led to in particular in the sharp decline in money market transactions, which was chiefly attributable to maturities. The volume of securitized liabilities was reduced at the same time. The decline in negative fair values from trading derivatives was interest rate induced.

Negative fair values from derivative hedging instruments.

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

EUR million	31 Dec. 2017	31 Dec. 2016
Negative fair values from portfolio fair value hedges	2 434	2 908
Negative fair values from micro fair value hedges	881	1 081
Total	**3 315**	**3 989**

The negative fair values from derivative hedging instruments were broken down by hedged item as follows:

EUR million	31 Dec. 2017	31 Dec. 2016
Assets		
Derivative hedging instruments on loans and advances to banks	22	28
Derivative hedging instruments on loans and advances to customers	208	261
Derivative hedging instruments on financial assets	633	775
AfS category	633	775
Equity and liabilities		
Derivative hedging instruments on securitized liabilities	10	16
Derivative hedging instruments on subordinated liabilities	8	0
Derivative hedging instruments on portfolio fair value hedges	2 434	2 908
Total	**3 315**	**3 989**

49. Provisions.

EUR million	31 Dec. 2017	31 Dec. 2016
Provisions for pensions	3 166	3 160
Provisions for litigation and recourse risk	191	182
Provisions for lending business	73	59
Other personnel-related provisions	124	112
Other provisions	243	222
Total	**3 796**	**3 734**

As at the reporting date, provisions of EUR 205 million (previous year: EUR 186 million) had a remaining term to maturity of less than 12 months.

Provisions for pensions.

The composition of net additions to provisions for pensions and other post-employment benefit obligations is shown in the following table:

EUR million	1 Jan. – 31 Dec. 2017	1 Jan. – 31 Dec. 2016
Net interest income from defined benefit plans	– 54	– 63
Current service cost including the release of pension liabilities	– 70	– 61
Other income and expenses	1	0
Net additions to provisions for pensions and other post-employment benefit obligations	**– 123**	**– 124**

The present value of the defined benefit obligations is broken down into the following components:

EUR million	2017	2016
Balance as at 1 January	**3 382**	**3 144**
Changes recognized in the income statement	128	129
Interest expense/income	58	68
Current service cost including the release of pension liabilities	70	61
Changes recognized in Other income	– 20	216
Actuarial gains(+)/losses(-) from changes to the demographic assumptions	0	3
Actuarial gains(+)/losses(-) from changes to the financial assumptions	– 4	245
Experience-based actuarial gains(+)/losses(-)	– 15	– 27
Changes in exchange rates	– 1	– 5
Other changes	– 114	– 107
Employer contributions	0	1
Pension benefits paid	– 114	– 108
Balance as at 31 December	**3 376**	**3 382**

The present value of the defined pension obligations was classified as follows by the type of beneficiary:

EUR million	1 Jan. – 31 Dec. 2017	1 Jan. – 31 Dec. 2016
Present value of the pension obligations for active employers	1 244	1 261
Present value of the pension obligations for candidates	489	484
Present value of the pension obligations for retirees	1 643	1 637
Total	**3 376**	**3 382**

This present value was broken down as follows by type of benefit:

EUR million	1 Jan. – 31 Dec. 2017	1 Jan. – 31 Dec. 2016
Present value of the accrued but non-vested pension obligations	444	311
Present value of the vested pension obligations	2 932	3 071
Total	**3 376**	**3 382**

The present value of the defined benefit plans arose from the following commitments or benefits:

EUR million	1 Jan. – 31 Dec. 2017	1 Jan. – 31 Dec. 2016
Present value of the pension obligations based on conditional benefits	4	4
Present value of the pension obligations based on future salary increases	439	304
Present value of the pension obligations based on other benefits	2 933	3 074
Total	**3 376**	**3 382**

Obligations under defined benefit plans were calculated using the following actuarial assumptions:

in %	31 Dec. 2017	31 Dec. 2016
Fluctuation	4.00	4.00
Discount rate	1.73	1.72
Expected rate of salary increase	1.85	1.85
Expected rate of pension increase	1.70	1.70
Career dynamics	0.50	0.50

Life expectancy, marriage probability and disability were calculated using the 2005G Heubeck mortality tables. Commencement of retirement is determined using the retirement age in accordance with actuarial assumptions.

The following overview shows the sensitivity of the pension obligation as at the balance sheet date with regard to each isolated change to important assumptions. A change in the individual parameters of 0.5 percentage points would have had the following impact on the pension obligation at the end of the year under review, if all other assumptions remained constant:

31 Dec. 2017 EUR million	Increase of 0.5 pp	Decrease of 0.5 pp
Defined benefit pensions		
Change in calculatory interest rate	– 244	276
Change in expected income development	88	– 81
Change in expected pension growth	70	– 63
Change in career dynamics	5	– 5
Change in fluctuation	– 1	1

31 Dec. 2016 EUR million	Increase of 0.5 pp	Decrease of 0.5 pp
Defined benefit pensions		
Change in calculatory interest rate	– 250	283
Change in expected income development	93	– 86
Change in expected pension growth	73	– 66
Change in career dynamics	6	– 6
Change in fluctuation	– 1	1

A one-year increase in life expectancy would lead to a EUR 112 million (previous year: EUR 113 million) increase in the defined benefits.

When calculating the sensitivities, each parameter was stressed, all other things remaining equal. A correlation between the valuation assumptions was therefore not taken into account.

The fair value of the plan assets consisted of the following at year-end:

EUR million	31 Dec. 2017	31 Dec. 2016
Time deposits and other cash and cash equivalents	18	21
Level I measurement	9	11
Level II measurement	9	10
Securities	189	198
Securities – equity instruments	44	49
Equity instruments from banks	35	37
Level I measurement	35	37
Equity instruments from other financial corporations	10	12
Level II measurement	10	12
Securities - debt instruments	144	149
Debt instruments from financial institutions	136	140
Level I measurement	136	140
Debt instruments from other financial corporations	8	9
Level II measurement	8	9
Real estate	3	3
Plan assets	**210**	**222**

None of the above assets were used directly by the LBBW Group.

The fair value of the plan assets changed as follows during the financial year:

EUR million	2017	2016
Balance as at 1 January	**222**	**236**
Changes recognized in the income statement	4	5
Interest income/expense	4	5
Changes recognized in Other income	0	– 6
Income/expense from the plan assets (less the income included in net interest income)	1	– 1
Changes in exchange rates	– 1	– 5
Other changes	– 16	– 13
Employer contributions	2	1
Pension benefits paid	– 18	– 14
Balance as at 31 December	**210**	**222**

For the coming financial year estimated contributions to plan assets to be paid by the employer amount to approximately EUR 2 million (previous year: EUR 1 million).

The present value of defined benefit obligations and the fair value of plan assets can be reconciled with the assets and liabilities as reported in the balance sheet as follows:

EUR million	31 Dec. 2017	31 Dec. 2016
Present value of defined benefit obligations	3 376	3 382
Present value of defined benefit obligations from unfunded plans	2 960	2 954
Present value of defined benefit obligations from wholly or partially funded plans	415	428
Fair value of plan assets	– 210	– 222
Obligations not covered by plan assets	3 166	3 160
Provisions for pensions	**3 166**	**3 160**

The weighted average maturity of the defined benefit obligation is 15,9 years (previous year: 16,2 years).

The following table shows the maturity analysis of the benefit payments in the current financial year:

EUR million	31 Dec. 2017
Maturity analysis	
Up to 1 year	109
More than 1 year to 5 years	492
More than 5 years to 10 years	705
More than 10 years to 15 years	798
More than 15 years	3 363

Other provisions.

The following table shows changes in other provisions in the year under review:

EUR million	Other personnel-related provisions	Provisions for credit risk	Provisions for litigation and recourse risk	Other provisions	Total
Balance as at 1 January 2017	**112**	**59**	**182**	**222**	**574**
Utilization	–38	0	–28	–52	–119
Reversals	–6	–25	–25	–6	–62
Additions	64	39	58	92	253
Reclassifications	1	0	0	–12	–11
Compounding of non-current provisions	0		7	0	7
Changes not recognized in profit or loss	–8	0	0	0	–8
Currency translation differences	–2	0	–1	–1	–3
Balance as at 31 December 2017	**124**	**73**	**191**	**243**	**631**

The other personnel-related provisions included mainly provisions for staff anniversaries.

Plan assets amounting to EUR 9 million were in place as at the balance sheet date for the obligation for settlement arrears from partial retirement contracts. The commitments for settlement arrears from partial retirement contracts amounting to EUR 8 million were offset against the plan assets in line with IAS 19.128.

In total, provisions with a term of over 12 months in the amount of EUR 432 million were discounted.

The Group was faced with various legal proceedings and court actions arising in the ordinary course of business. Provisions were recognized for the risks involved in the management and the Group's legal advisors deem payments to be made by LBBW likely and the amounts involved can be estimated with sufficient reliability. There are other legal disputes where the Board of Managing Directors, after consultation with its legal advisors, holds the view that a payment by the Bank is unlikely (recognition as a contingent liability if necessary) or that the final settlement of these disputes does not affect the present consolidated financial statements in any material way.

50. Income tax liabilities.

Income tax liabilities include income taxes for the current and previous periods payable, but not yet paid, as at the balance sheet date.

EUR million	31 Dec. 2017	31 Dec. 2016
Current income tax liabilities	47	57
of which provisions for income tax	44	53
of which income tax liabilities to tax authorities	3	4
Deferred income tax liabilities	28	31
Total	**75**	**88**

Of the current income tax liabilities, EUR 47 million (previous year: EUR 57 million) is due within one year. Deferred income tax liabilities amounting to EUR 28 million (previous year: EUR 31 million) have a term of over 12 months.

For a detailed description of income tax liabilities, see Note 31.

51. Other liabilities.

EUR million	31 Dec. 2017	31 Dec. 2016
Liabilities from		
other taxes	52	42
employment	36	34
deliveries and services	105	156
non-controlling interests	2	0
finance leases	3	3
advances received	32	101
other miscellaneous liabilities	968	553
Total	**1 199**	**889**

Other liabilities with maturities of more than 12 months amounted to EUR 34 million (previous year: EUR 42 million).

For a detailed description of leasing business, see Note 68.

52. Subordinated capital.

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

EUR million	31 Dec. 2017	31 Dec. 2016
Typical silent partners' contributions	1 104	1 246
Subordinated liabilities	4 158	4 532
Capital generated from profit-participation rights	102	117
Total	**5 364**	**5 895**

During the calendar year subordinated liabilities of EUR 195 million (nominal amount) were newly raised. This figure compared with repayments of EUR 459 million (nominal amount). In addition, silent partners' contributions with a nominal amount of EUR 129 million and a participation right in bearer form in the amount of EUR 17 million were repaid.

On top of this, measurement and premiums and discounts are reported in Subordinated capital.

As at the reporting date, subordinated capital of EUR 150 million (previous year: EUR 1 184 million) was set to mature during the next 12 months.

Subordinated liabilities.

The following subordinated liabilities (incl. subordinated liabilities designated at fair value) existed at the balance sheet date, broken down according to product type.

	31 Dec. 2017			31 Dec. 2016		
EUR million	Capital	Interest accrued in year under review	Total	Capital	Interest accrued in year under review	Total
Subordinated EUR bearer notes	2 359	35	2 393	2 427	35	2 462
Subordinated EUR registered securities	971	12	984	1 357	14	1 371
Subordinated foreign currency bearer bonds	931	20	952	631	17	648
Total	**4 262**	**67**	**4 328**	**4 415**	**66**	**4 481**

The table above includes subordinated registered securities and bonds designated at fair value with nominal capital in the amount of EUR 320 million (previous year: EUR 142 million). During the calendar year, one subordinated issue that was designated at fair value was newly raised with nominal capital of EUR 187 million.

The interest expense on subordinated liabilities (incl. subordinated liabilities designated at fair value) was EUR -167 million (previous year: EUR -155 million).

Capital generated from profit-participation rights.

The capital generated from profit-participation rights fulfils the requirements of Article 63 CRR for Tier 2 instruments. Pursuant to Article 64 CRR, amortization of the Tier 2 instruments shall occur on the basis of the number of days that have passed in the last five years of their term.

The terms of material profit-participation rights (incl. profit-participation rights designated at fair value) were as follows at the balance sheet date:

31 Dec. 2017 EUR million	Nominal amount	Interest rate in % p. a.	Maturity
Registered participation rights			
Company	206	4.77 to 7.18	up to 2022
Banks	10	4.82	31 Dec. 2020
Total	**216**		

The table above include registered participation rights designated at fair value with nominal capital in the amount of EUR 101 million (previous year: EUR 101 million).

Net interest income for capital generated from profit-participation rights for the financial year (including profit-participation rights designated at fair value) totaled EUR -16 million (previous year: EUR -18 million).

Typical silent partners' contributions.

The silent partners' contributions do not meet the requirements of Article 52 CRR for additional Tier 1 instruments. However, due to the transitional provisions of Article 484 CRR, they may continue to be included within the limits of Article 486 CRR. The silent partners' contributions of LBBW could still be fully considered in 2017.

At the end of the financial year, the following contributions had been made by silent partners:

		Nominal amount	
Duration[1]	Dividend payout as a percentage of the nominal amount	31 Dec. 2017 EUR million	31 Dec. 2016 EUR million
31 Dec. 1993 - 31 Dec. 2016 (terminated)	0.25	0.0	64.7
8 Dec. 1999 – 31 Dec. 2016	0.0	0.0	64.5
31 Dec. 1993 - 31 Dec. 2017[2] (terminated)	1.2	19.5	19.5
15 Nov. 1999 – 31 Dec. 2019	7.87	10.0	10.0
25 Apr. 1999 – 31 Dec. 2019	5.05	30.0	30.0
29 Oct. 2001- 31 Dec. 2019 (terminated)	3.92	3.2	3.2
29 Oct. 2001- 31 Dec. 2019 (terminated)	3.92	86.3	86.3
5 Jan. 2000 - 31 Dec. 2020	8.25	30.0	30.0
19 May 1999 - 31 Dec. 2024	7.11	20.0	20.0
13 Jul. 2001 – 31 Dec. 20263	2.0	15.0	15.0
1 Oct. 1999 – 31 Dec. 2029	8.03 – 8.20	49.0	49.0
10 Mar. 2000 - 31 Dec. 2030	8.05 – 8.25	10.0	10.0
2 Jul. 2001 - 31 Dec. 2031	8.46	20.0	20.0
Silent partners contributions with a fixed end of term		**293.0**	**422.2**
		Nominal amount	
Expiry of the fixed interest period	Dividend payout as a percentage of the nominal amount	31 Dec. 2017 EUR million	31 Dec. 2016 EUR million
26 Jun. 2017[4]	2.53	200.0	200.0
31 Dec. 2021	3.93	8.9	8.9
31 Dec. 2022	3.74	4.7	4.7
31 Dec. 2023	3.81	222.7	222.7
No expiry of the fixed interest period[5]	4.56	300.0	300.0
Silent partners' contributions without a fixed end of term		**736.3**	**736.3**
Total		**1 029.3**	**1 158.5**

1 Repayment takes place after approval of the annual financial statements in accordance with HGB at a contractually fixed date. Provided the start of the term is stated, the information relates to the first agreement entered into in a group of agreements with similar terms.
2 The future interest rate is variable and will be 0.25 % as at 1 Jan. 2018.
3 Annual adjustment of interest rates.
4 The future interest rate will be 2.24 %.
5 Interest rate is fixed. Only specific changes in the tax legislation have an impact on the interest rate.

The interest expense for silent partners' contributions totaled EUR -45 million (previous year: EUR -51 million).

53. Equity.

EUR million	31 Dec. 2017	31 Dec. 2016
Share capital	3 484	3 484
Capital reserve	8 240	8 240
Retained earnings	820	1 014
Other income	371	348
Unappropriated profit/loss	416	10
Shareholders' equity	**13 331**	**13 096**
Equity attributable to non-controlling interests	46	38
Total	**13 377**	**13 134**

Cumulative actuarial gains and losses after tax amounting to EUR – 822 million (previous year: EUR – 836 million) were reported in retained earnings.

At the current reporting date, a valuation effect after deferred taxes of EUR 11 million (previous year: EUR 24 million) in connection with the measurement result from LBBW's own credit rating was included in other income.

Having being lowered to EUR 10 million by the non-recurring effect from the full impairment of goodwill of EUR 379 million at year-end 2016, unappropriated profit/loss recovered was currently on the observable long-term course.

Equity includes taxes recognized directly in equity totaling EUR 354 million (previous year: EUR 353 million).

The detailed development of the individual components of the Equity item are shown in Statement of changes in equity.

Notes on financial instruments.

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

54. Fair value measurement.

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

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

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

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

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

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

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

Financial instruments	Valuation models	Material parameters
Interest rate swaps and options	Net present value method, Black-Scholes, replication and Copula-based models, Markov functional model and Libor market models	Yield curves, swaption volatility, cap volatility, correlations, mean reversion
Forward rate agreements	Net present value method	Yield curves
Forward commodity agreements, currency forwards	Net present value method	Commodity rates/exchange rates, yield curves
Stock/index options, equity index/dividend futures	Black-Scholes, local volatility model, 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
Securitizations	Net present value method	Liquidity spreads, yield curves, prepayments, arrears and default rates, loss severity

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

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

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

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

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

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

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

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

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

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

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

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

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

- Recognition of credit risks in relation to receivables and counterparty default risks from OTC derivatives (CVA).
- Adjustment to mid-price based valuations on the use of bid/ask prices, for example, as close-out valuation adjustments for OTC interest rate and credit derivatives.
- Weaknesses in the models and/or parameters used, for example, so-called model valuation adjustments for specific equities, interest rate and credit derivatives.
- Day One profit or loss on specific complex derivatives and loans that are measured at fair value.

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

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

55. Fair value of financial instruments.

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

Assets.

	31 Dec. 2017		31 Dec. 2016	
EUR million	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents	**22 729**	**22 729**	**13 532**	**13 532**
Assets measured at fair value				
Trading assets	28 698	28 698	46 648	46 648
Derivatives	17 747	17 747	23 925	23 925
Currency-linked derivatives	2 889	2 889	4 316	4 316
Interest rate-linked derivatives	14 118	14 118	19 039	19 039
Credit derivatives	125	125	128	128
Equity-/index-linked derivatives	548	548	381	381
Commodity-linked and other derivatives	68	68	60	60
Equity instruments	1 876	1 876	689	689
Securities	6 178	6 178	9 014	9 014
Receivables	2 897	2 897	13 020	13 020
Financial assets designated at fair value	732	732	750	750
Equity instruments	215	215	203	203
Securities	110	110	97	97
Loans and receivables	408	408	450	450
Positive fair values from derivative hedging instruments	1 956	1 956	2 777	2 777
Interest rate derivatives	1 946	1 946	2 769	2 769
Cross-currency interest rate swaps	10	10	7	7
Financial investments (AfS)	21 185	21 185	20 270	20 270
Equity instruments	772	772	899	899
Securities	20 413	20 413	19 371	19 371
Assets carried at amortized cost				
Loans and advances to banks after allowances for losses on loans and advances	48 179	48 803	39 277	40 316
Public-sector loans	26 461	27 248	25 793	26 869
Securities repurchase transactions	10 148	9 974	7 676	7 630
Other receivables	11 570	11 581	5 808	5 818
Loans and advances to customers after allowances for losses on loans and advances	107 652	112 254	110 415	116 231
Public-sector loans	17 468	19 724	17 879	20 493
Mortgage loans	30 449	31 479	30 236	32 697
Securities repurchase transactions	10 830	10 827	12 336	12 375
Other receivables	48 906	50 224	49 964	50 667
of which finance leases	5 302	5 555	4 866	5 147
Financial investments (LaR)	1 663	1 678	5 423	5 495
Equity instruments	5	5	5	5
Securitizations	399	404	297	300
Government bonds	0	0	4 301	4 365
Other securities	1 259	1 269	820	824
Non-current assets and disposal groups held for sale	**0**	**0**	**28**	**28**

Equity and liabilities.

EUR million	31 Dec. 2017 Carrying amount	Fair value	31 Dec. 2016 Carrying amount	Fair value
Liabilities measured at fair value				
Trading liabilities	21 882	21 882	63 090	63 090
Derivatives	15 493	15 493	21 394	21 394
Currency-linked derivatives	2 981	2 981	4 528	4 528
Interest rate-linked derivatives	11 349	11 349	15 624	15 624
Credit derivatives	306	306	346	346
Equity-/index-linked derivatives	779	779	858	858
Commodity-linked and other derivatives	78	78	37	37
Delivery obligations from short sales of securities	1 289	1 289	1 349	1 349
Deposits	225	225	28 880	28 880
Securitized liabilities	4 874	4 874	11 464	11 464
Other financial liabilities	1	1	2	2
Financial liabilities designated at fair value	2 726	2 726	2 768	2 768
Deposits	1 492	1 492	1 537	1 537
Securitized liabilities	1 234	1 234	1 231	1 231
Negative fair values from derivative hedging instruments	3 315	3 315	3 989	3 989
Interest rate derivatives	3 288	3 288	3 916	3 916
Cross-currency interest rate swaps	27	27	73	73
Liabilities carried at amortized cost				
Deposits from banks	61 895	62 789	44 568	45 497
Securities repurchase transactions	3 276	3 153	3 298	3 304
Borrower's note loans	3 679	3 798	4 125	4 304
Other liabilities	54 941	55 838	37 145	37 888
of which finance leases	0	0	0	0
Deposits from customers	79 415	80 549	70 641	71 803
Current account liabilities	41 464	41 456	34 422	34 419
Borrower's note loans	1 903	2 038	2 026	2 175
Registered covered bonds	3 880	4 608	4 429	5 249
Securities repurchase transactions	1 445	1 430	5 038	4 968
Other liabilities	30 723	31 018	24 726	24 991
Securitized liabilities	44 432	45 031	34 343	35 084
Other liabilities – of which finance leases	3	3	3	3
Subordinated capital	5 364	5 636	5 895	5 983
Subordinated liabilities	4 158	4 480	4 532	4 781
Capital generated from profit-participation rights	102	136	117	141
Silent partners' contributions	1 104	1 021	1 246	1 060

56. Fair value hierarchy.

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

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

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

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

Assets.

EUR million	Prices traded on active markets (Level I) 31 Dec. 2017	31 Dec. 2016	Valuation method - on the basis of externally observable parameters (Level II) 31 Dec. 2017	31 Dec. 2016	Valuation method - on the basis of not externally observable parameters (Level III) 31 Dec. 2017	31 Dec. 2016
Cash and cash equivalents	**164**	**181**	**22 565**	**13 351**	**0**	**0**
Assets measured at fair value						
Trading assets	2 978	3 862	25 385	41 915	334	871
Derivatives	63	38	17 463	23 553	222	333
Currency-linked derivatives	0	0	2 816	4 200	72	116
Interest rate-linked derivatives	0	0	13 974	18 826	144	213
Credit derivatives	0	0	125	128	0	0
Equity-/index-linked derivatives	0	0	542	377	6	4
Commodity-linked and other derivatives	63	38	5	22	0	0
Equity instruments	707	397	1 169	292	0	0
Securities	2 208	3 427	3 970	5 587	0	0
Receivables	1	0	2 784	12 483	112	538
Financial assets designated at fair value	20	0	702	745	10	4
Equity instruments	0	0	213	199	2	4
Securities	20	0	82	97	7	0
Receivables	0	0	408	450	0	0
Positive fair values from derivative hedging instruments	0	0	1 956	2 777	0	0
Interest rate derivatives	0	0	1 946	2 769	0	0
Cross-currency interest rate swaps	0	0	10	7	0	0
Financial investments (AfS)	16 770	16 573	4 213	3 313	203	384
Equity instruments	577	524	0	0	195	376
Securities	16 192	16 049	4 213	3 313	8	8
Investment property	0	0	0	0	554	574
Assets carried at amortized cost						
Loans and advances to banks after allowances for losses on loans and advances	0	0	33 541	12 819	15 262	27 497
Public-sector loans	0	0	14 058	3 016	13 190	23 853
Securities repurchase transactions	0	0	9 974	7 630	0	0
Other receivables	0	0	9 510	2 174	2 072	3 645
Loans and advances to customers after allowances for losses on loans and advances	0	0	27 656	24 722	84 598	91 509
Public-sector loans	0	0	7 952	6 360	11 771	14 133
Mortgage loans	0	0	276	108	31 203	32 589
Securities repurchase transactions	0	0	10 827	12 375	0	0
Other receivables	0	0	8 600	5 880	41 624	44 788
of which finance leases	0	0	3	0	5 553	5 147
Financial investments (LaR)	0	21	1 269	5 169	409	305
Equity instruments	0	0	0	0	5	5
Securitizations	0	0	0	0	404	300
Government bonds	0	0	0	4 365	0	0
Other securities	0	21	1 269	804	0	0
Non-current assets and disposal groups held for sale	**0**	**0**	**0**	**0**	**104**	**80**

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Equity and liabilities.

EUR million	Prices traded on active markets (Level I)		Valuation method - on the basis of externally observable parameters (Level II)		Valuation method - on the basis of not externally observable parameters (Level III)	
	31 Dec. 2017	31 Dec. 2016	31 Dec. 2017	31 Dec. 2016	31 Dec. 2017	31 Dec. 2016
Liabilities measured at fair value						
Trading liabilities	1 324	137	20 276	62 621	281	331
Derivatives	37	28	15 175	21 035	281	331
Currency-linked derivatives	0	0	2 963	4 518	17	11
Interest rate-linked derivatives	0	0	11 226	15 431	123	194
Credit derivatives	0	0	172	223	135	123
Equity-/index-linked derivatives	0	0	773	854	6	4
Commodity-linked and other derivatives	37	28	41	9	0	0
Delivery obligations from short sales of securities	1 287	109	2	1 240	0	0
Deposits	0	0	225	28 880	0	0
Securitized liabilities	0	0	4 874	11 464	0	0
Other financial liabilities	1	0	0	2	0	0
Financial liabilities designated at fair value	0	0	2 112	2 143	613	626
Deposits	0	0	1 376	1 499	116	38
Securitized liabilities	0	0	737	644	497	587
Negative fair values from derivative hedging instruments	0	0	3 315	3 989	0	0
Interest rate derivatives	0	0	3 288	3 916	0	0
Cross-currency interest rate swaps	0	0	27	73	0	0
Liabilities carried at amortized cost						
Deposits from banks	0	0	61 826	44 618	963	878
Securities repurchase transactions	0	0	3 153	3 304	0	0
Borrower's note loans	0	0	3 798	4 304	0	0
Other liabilities	0	0	54 875	37 010	963	878
Deposits from customers	0	0	79 878	71 144	671	659
Current account liabilities	0	0	41 456	34 419	0	0
Borrower's note loans	0	0	2 038	2 175	0	0
Registered covered bonds	0	0	4 608	5 249	0	0
Securities repurchase transactions	0	0	1 430	4 968	0	0
Other liabilities	0	0	30 347	24 332	671	659
Securitized liabilities	0	0	42 591	33 219	2 440	1 865
Other liabilities – of which finance leases	0	0	0	0	3	3
Subordinated capital	0	0	5 636	5 983	0	0
Subordinated liabilities	0	0	4 480	4 781	0	0
Capital generated from profit-participation rights	0	0	136	141	0	0
Silent partners' contributions	0	0	1 021	1 060	0	0

For technical processing reasons, the availability of external rating information for the valuation of loans could be raised on sustained basis. In a large number of transactions – and hence of the loans and advances to banks and to customers overall – this has resulted in a pronounced shift compared with the previous year in the level information (from Level III to Level II).

Transfers to levels.

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

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

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

Assets.

EUR million	Transfers from Level I to Level II 31 Dec. 2017	Transfers from Level I to Level II 31 Dec. 2016	Transfers from Level II to Level I 31 Dec. 2017	Transfers from Level II to Level I 31 Dec. 2016
Assets measured at fair value				
Trading assets	28	485	82	136
Derivatives	0	372	0	0
Equity-/index-linked derivatives	0	372	0	0
Equity instruments	0	0	1	0
Securities	28	113	80	136
Financial investments (AfS)	428	0	16	115
Securities	428	0	16	115

Equity and liabilities.

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

In the year under review, LBBW carried out reclassifications from Level I to Level II, as there were no listed prices from active markets to hand for the corresponding financial instruments. Reclassifications in the opposite direction also took place as listed prices from active markets became available once again for these transactions.

Development of Level III.

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

Assets.

31 Dec. 2017

	Trading assets				
	Derivatives			Securities	Receivables
EUR million	Currency-linked derivatives	Interest rate-linked derivatives	Equity-/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 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
Transfers 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 The amounts are recognized in the Revaluation reserve item.

	Financial assets designated at fair value		Financial investments (AfS)		Investment property	Non-current assets and disposal groups held for sale	Total
	Equity instruments	Securities	Equity instruments	Securities			
	4	0	376	8	574	80	1 913
	0	0	– 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

31 Dec. 2016

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

1 The amounts are recognized in the Revaluation reserve item.

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

Equity and liabilities.

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	Equity-/index-linked derivatives			
Carrying amount as at 1 January 2017	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 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
Transfers 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 The amounts are recognized in the Revaluation reserve item.

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

1 The amounts are recognized in the Revaluation reserve item.

Some financial instruments were reclassified to Level III of the fair value hierarchy, as Risk Controlling analyses resulted in a now material influence of the non-observable parameters on the fair value.

Sensitivity analysis Level III.

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

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

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

Assets.

	Positive changes in fair value		Negative changes in fair value	
	Net gains/losses from financial instruments measured at fair value and revaluation reserve		Net gains/losses from financial instruments measured at fair value and revaluation reserve	
EUR million	31 Dec. 2017	31 Dec. 2016	31 Dec. 2017	31 Dec. 2016
Assets measured at fair value				
Trading assets	5.4	3.0	-4.0	-2.3
Derivatives	4.6	2.8	-3.2	-2.1
Interest rate-linked derivatives	4.0	2.5	-2.7	-1.8
Equity-/index-linked derivatives	0.3	0.0	-0.3	-0.1
Currency-linked derivatives	0.3	0.3	-0.2	-0.3
Receivables	0.8	0.2	-0.7	-0.2
Financial investments (AfS)	5.0	14.0	-3.7	-10.8
Equity instruments	5.0	14.0	-3.7	-10.8
Total	**10.4**	**17.0**	**-7.7**	**-13.1**

Equity and liabilities.

	Positive changes in fair value		Negative changes in fair value	
	Net gains/losses from financial instruments measured at fair value and revaluation reserve		Net gains/losses from financial instruments measured at fair value and revaluation reserve	
EUR million	31 Dec. 2017	31 Dec. 2016	31 Dec. 2017	31 Dec. 2016
Liabilities measured at fair value				
Trading liabilities	7.4	7.7	-9.1	-8.4
Derivatives	7.4	7.7	-9.1	-8.4
Interest rate-linked derivatives	2.7	1.3	-4.3	-1.9
Credit derivatives	4.2	6.2	-4.2	-6.2
Equity-/index-linked derivatives	0.3	0.1	-0.3	0.0
Currency-linked derivatives	0.2	0.2	-0.2	-0.2
Financial liabilities designated at fair value	0.1	0.1	-0.1	-0.1
Securitized liabilities	0.1	0.1	-0.1	-0.1
Total	**7.5**	**7.8**	**-9.2**	**-8.4**

Significant non-observable Level III parameters.

The significant non-observable parameters of the financial instruments measured at fair value and classified as Level III and investment property are shown in the following tables. See Note 13 for further qualitative information about the investment property.

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

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

Assets.

31 Dec. 2017 EUR million	Valuation techniques	Significant non-observable parameters	Spread	Parameter shift
Assets measured at fair value				
Trading assets				
Derivatives				
Interest rate derivatives	Option price model	Interest rate correlation	– 81 % – 99 %	rel. – 20 %/+ 10 %
Equity-/index-linked derivatives	Option price model	Model parameters	0.02 – 3.90	rel. – 18 %/+ 18 %
Currency-linked derivatives	Option price model	Currency correlation	47 %	abs. – 30 %/+ 30 %
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 investments (AfS)				
	Net asset value method	n/a	n/a	n/a
	Discounted cash flow method	Capitalization rate	3.41 % – 4.44 %	individually per instrument
Equity instruments	Net income value method	Beta factor	0.81 – 1.13	rel. + 5 %/– 5 %
	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	
Investment property		Administrative costs (as a % of the target rent)	0.0 % – 6.5 %	

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

Equity and liabilities.

31 Dec. 2017 EUR million	Valuation techniques	Significant non-observable parameters	Spread	Parameter shift
Liabilities measured at fair value				
Trading liabilities				
Derivatives				
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 %
Equity-/index-linked derivatives	Option price model	Model parameters	0.02 – 3.90	rel. – 18 %/+ 18 %
Currency-linked derivatives	Option price model	Currency correlation	47 %	abs. – 30 %/+ 30 %
Financial liabilities designated at fair value				
Deposits	Option price model	Interest rate correlation	21 % – 99 %	rel. – 20 %/+ 10 %
	Option price model	Interest rate correlation	21 % – 99 %	rel. – 20 %/+ 10 %
Securitized liabilities		Currency correlation	47 %	abs. – 30 %/+ 30 %

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

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

Day One profit or loss.

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

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

LBBW accounts for so-called Day One profits for trading portfolios of the interest rate derivatives and receivables categories. At the current qualifying date, the portfolios were of minor importance.

The following table shows the performance of the Day One profits for the 2017 financial year compared with year-end 2016, which were accrued due to the use of major unobservable parameters for financial instruments recognized at fair value.

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

57. Financial instruments designated at fair value.

The information on financial assets and liabilities designated at fair value is set out in the following tables.

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Assets.

31 Dec. 2017 EUR million	Maximum default risk as at the qualifying date	Cumulative changes in fair value resulting from the credit spread	Changes in fair value resulting from the credit spread in the year under review
Debentures and other fixed-income securities	110	0	1
Other	622	-1	2
Total	**732**	**-1**	**3**

31 Dec. 2016 EUR million	Maximum default risk as at the qualifying date	Cumulative changes in fair value resulting from the credit spread	Changes in fair value resulting from the credit spread in the year under review
Debentures and other fixed-income securities	97	-1	2
Other	653	-2	1
Total	**750**	**-4**	**3**

Equity and liabilities.

31 Dec. 2017 EUR million	Difference between carrying amount and contractual amount payable on maturity	Cumulative changes in fair value resulting from the credit spread
Securitized liabilities	127	3
Deposits	156	2
Other	321	10
Total	**604**	**15**

31 Dec. 2016 EUR million	Difference between carrying amount and contractual amount payable on maturity	Cumulative changes in fair value resulting from the credit spread
Securitized liabilities	173	4
Deposits	176	13
Other	324	15
Total	**673**	**33**

LBBW calculates two values to determine the change in credit risk. For one fair value, the currently applicable credit spread is used while for the other, the historical credit spread is applied. The difference between the two values expresses the change in fair value induced by changes to the credit rating since the financial instrument was designated at fair value. The approach chosen ensures that the changes in fair value induced by the credit rating are not distorted by other market price risk-induced effects.

To be able to take into account the instrument-specific credit risk that is decisive for the rating-induced changes in fair value, a spread curve appropriate to the risk profile is used. Primary market prices are used to form the spread curves; in the absence of primary market activity, secondary market prices and approximation methods based on liquid market prices of comparable bonds may be employed.

From an economic aspect, the financial liabilities designated at fair value are regularly immunized against the changes in fair value resulting from the market price risks through the use of derivative financial instruments. Essentially, the gain/loss from the change in own credit rating remains, which is reported in full under Other income. Transfers within equity are made only if the effects are realized gains/losses in connection with the measurement of the own credit rating.

58. Net gains/losses from financial instruments.

The net gains or losses, broken down by category according to IAS 39, comprise gains and losses on disposal, changes in fair value, impairments, reversals of impairment losses, and subsequent income from financial instruments already written off. They also include changes in value from economic hedging derivatives and the income/loss from changes in the value of hedged items from micro fair value hedges.

EUR million	1 Jan. – 31 Dec. 2017	1 Jan. – 31 Dec. 2016
Financial assets carried at amortized cost	–161	254
Financial liabilities/assets held for trading	128	176
Financial liabilities/assets designated at fair value	87	–9
Available-for-sale financial assets	33	402
Financial liabilities measured at amortized cost	70	–134

59. Impairment losses on financial assets.

EUR million	1 Jan. – 31 Dec. 2017	1 Jan. – 31 Dec. 2016
Assets measured at fair value		
Financial investments (AfS)	–8	–3
Equity instruments	–8	–3
Securities	0	–1
Assets carried at amortized cost		
Loans and advances to banks	–2	–7
Other receivables	–2	–6
Loans and advances to customers	–252	–296
Public-sector loans	–8	–5
Mortgage loans	–30	–53
Other receivables	–214	–238
of which finance leases	–31	–23
Total	**–262**	**–306**

60. Reconciliation of carrying amounts to categories.

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

31 Dec. 2017 EUR million	Loans and receivables	Available for sale	Held for trading	Fair value option	Other liabilities	Total
Loans and advances to banks after allowances for losses on loans and advances	48 179					48 179
Loans and advances to customers after allowances for losses on loans and advances	107 652					107 652
Financial assets measured at fair value through profit or loss[1]			28 698	732		29 430
Financial investments	1 663	21 185				22 848
Deposits from banks					61 895	61 895
Deposits from customers					79 415	79 415
Securitized liabilities					44 432	44 432
Financial liabilities measured at fair value through profit or loss[2]			21 882	2 726		24 607
Subordinated capital					5 364	5 364

1 Excluding positive fair values from derivative hedging instruments.
2 Excluding negative fair values from derivative hedging instruments.

31 Dec. 2016 EUR million	Loans and receivables	Available for sale	Held for trading	Fair value option	Other liabilities	Total
Loans and advances to banks after allowances for losses on loans and advances	39 277					39 277
Loans and advances to customers after allowances for losses on loans and advances	110 415					110 415
Financial assets measured at fair value through profit or loss[1]			46 648	750		47 398
Financial investments	5 423	20 270				25 693
Non-current assets and disposal groups held for sale[1]	0	28	0	0		28
Deposits from banks					44 568	44 568
Deposits from customers					70 641	70 641
Securitized liabilities					34 343	34 343
Financial liabilities measured at fair value through profit or loss[2]			63 090	2 768		65 858
Subordinated capital					5 895	5 895

1 Excluding positive fair values from derivative hedging instruments.
2 Excluding negative fair values from derivative hedging instruments.

61. Breakdown of financial instruments by remaining maturity.

The remaining maturity is defined as the period between the balance sheet date and the contractual maturity date of a receivable or liability, or installments thereof. Equity instruments have been allocated to the »up to 3 months and without a fixed term« maturity bracket. Trading assets or liabilities are generally recognized in accordance with their contractual maturity. The remaining maturity of the derivative financial instruments is also reported under Note 63.

31 Dec. 2017 EUR million	Up to 3 months and without a fixed term	More than 3 months to 1 year	More than 1 year to 5 years	More than 5 years	Total
Loans and advances to banks	21 563	5 661	11 718	9 242	48 184
Loans and advances to customers	19 644	12 343	40 710	35 634	108 332
Financial assets measured at fair value through profit or loss	5 209	3 090	8 568	14 519	31 386
Financial investments	2 795	2 841	7 642	9 570	22 848
Deposits from banks	22 677	6 294	20 954	11 970	61 895
Deposits from customers	61 150	8 855	4 808	4 601	79 415
Securitized liabilities	13 376	5 054	20 657	5 345	44 432
Financial liabilities measured at fair value through profit or loss	3 218	2 012	9 178	13 513	27 922
Subordinated capital	126	24	1 469	3 745	5 364

31 Dec. 2016 EUR million	Up to 3 months and without a fixed term	More than 3 months to 1 year	More than 1 year to 5 years	More than 5 years	Total
Loans and advances to banks	14 311	4 426	11 469	9 081	39 288
Loans and advances to customers	22 542	12 567	43 596	32 527	111 232
Financial assets measured at fair value through profit or loss	13 524	6 389	13 167	17 094	50 175
Financial investments	1 419	873	12 575	10 826	25 693
Non-current assets and disposal groups held for sale	0	28	0	0	28
Deposits from banks	11 198	4 737	17 288	11 345	44 568
Deposits from customers	57 322	5 422	3 623	4 275	70 641
Securitized liabilities	3 840	7 470	17 502	5 531	34 343
Financial liabilities measured at fair value through profit or loss	35 402	8 643	10 099	15 703	69 846
Subordinated capital	95	1 090	1 148	3 563	5 895

62. Maturity analysis.

The following table divides the undiscounted financial liabilities into derivative and non-derivative transactions for the remaining contractual maturities. Given that the reporting is undiscounted and includes interest payments, the figures differentiate in part from the carrying amounts shown in the balance sheet.

Financial liabilities according to contractually agreed maturity structures in accordance with IFRS 7.39 as at the balance sheet date are as follows:

31 Dec. 2017 EUR million	Up to 1 month	More than 1 to 3 months	More than 3 to 12 months	More than 1 year to 5 years	More than 5 years
Financial liabilities	–39 928	–14 656	–23 747	–43 450	–20 052
Liabilities from derivatives	–100	–125	–247	–1 212	–1 735
Total	**–40 028**	**–14 781**	**–23 994**	**–44 662**	**–21 787**
Irrevocable loan commitments and guarantees[1]	–27 005				
Savings and demand deposits, securitization from interbank accounts	–49 626				

1 Basis: for the LiqV relevant loan commitments and guarantees, excluding intra-Group commitments, since the funding risk associated with these commitments is already reflected in the consolidation of the inflow and outflow of funds, and not including undisbursed loans.

31 Dec. 2016 EUR million	Up to 1 month	More than 1 to 3 months	More than 3 to 12 months	More than 1 year to 5 years	More than 5 years
Financial liabilities	–49 184	–15 550	–26 650	–35 994	–20 406
Liabilities from derivatives	–17	–50	–366	–1 045	–1 421
Total	**–49 201**	**–15 600**	**–27 016**	**–37 039**	**–21 827**
Irrevocable loan commitments and guarantees[1]	–25 736				
Savings and demand deposits, securitization from interbank accounts	–42 226				

1 Basis: for the LiqV relevant loan commitments and guarantees, excluding intra-Group commitments, since the funding risk associated with these commitments is already reflected in the consolidation of the inflow and outflow of funds, and not including undisbursed loans.

For explanations on the manner in which LBBW manages liquidity risk, see the section on liquidity risk in the risk report.

63. Details about the volume of derivatives.

31 Dec. 2017	Nominal volumes - remaining maturities					Fair value	
EUR million	Up to 3 months	More than 3 months to 1 year	More than 1 year to 5 years	More than 5 years	Total	Positive	Negative
Currency forwards	135 256	34 530	13 284	522	183 593	2 040	2 029
Currency options	1 633	1 747	5 711	0	9 091	103	104
Purchases	843	857	2 739	0	4 440	103	0
Sales	789	890	2 972	0	4 651	0	104
Interest-rate/currency swaps	857	3 043	14 876	8 242	27 017	756	875
Currency-linked derivatives	**137 746**	**39 319**	**33 871**	**8 764**	**219 701**	**2 898**	**3 007**
Forward rate agreements	1 000	4 200	1 400	0	6 600	0	2
Interest rate swaps	134 382	170 031	545 687	547 174	1 397.274	13 662	11 952
Interest rate options	5 382	5 904	42 138	25 027	78 451	2 152	2 397
Purchases	3 386	2 115	17 238	9 630	32 369	1 221	512
Sales	1 997	3 789	24 901	15 396	46 082	931	1 885
Caps/floors/collars	1 168	2 443	14 884	11 593	30 088	215	180
Exchange-traded interest rate products	50 305	79 451	31 383	0	161 139	0	0
Other interest rate contracts	2 594	147	189	0	2 930	35	107
Interest rate-linked derivatives	**194 831**	**262 176**	**635 681**	**583 793**	**1 676.482**	**16 064**	**14 637**
Credit derivatives (protection seller)	852	1 347	3 941	752	6 891	124	1
Credit derivatives (protection buyer)	483	1 577	4 005	1 087	7 153	1	305
Credit derivatives	**1 335**	**2 924**	**7 946**	**1 839**	**14 044**	**125**	**306**
Exchange-traded products	2 736	5 398	11 823	579	20 535	529	742
Equity forward contracts	91	0	0	0	91	0	0
Stock options	8	778	62	322	1 170	6	19
Purchases	4	403	25	107	538	6	0
Sales	4	375	37	216	632	0	19
Other equity derivatives	149	1 107	16	0	1 272	14	18
Equity-/index-linked derivatives	**2 983**	**7 283**	**11 900**	**902**	**23 068**	**548**	**779**
Commodities	1 469	807	38	0	2 313	68	78
Commodity-linked and other derivatives	**1 469**	**807**	**38**	**0**	**2 313**	**68**	**78**
Total	**338 363**	**312 509**	**689 437**	**595 299**	**1 935.608**	**19 703**	**18 808**

31 Dec. 2016	Nominal volumes - remaining maturities					Fair value	
EUR million	Up to 3 months	More than 3 months to 1 year	More than 1 year to 5 years	More than 5 years	Total	Positive	Negative
Currency forwards	99 751	35 208	15 576	895	151 430	2 935	2 800
Currency options	683	1 524	6 113	0	8 319	139	144
Purchases	320	739	2 935	0	3 995	139	0
Sales	362	784	3 178	0	4 324	0	144
Interest-rate/currency swaps	2 149	4 587	14 342	8 787	29 866	1 250	1 657
Currency-linked derivatives	**102 582**	**41 319**	**36 031**	**9 683**	**189 615**	**4 324**	**4 601**
Forward rate agreements	17 326	16 000	1 800	0	35 126	0	0
Interest rate swaps	118 673	135 584	409 398	394 015	1 057.671	18 797	15 692
Interest rate options	2 804	7 317	31 451	27 178	68 750	2 680	3 450
Purchases	950	3 408	12 009	10 904	27 271	2 221	201
Sales	1 854	3 909	19 441	16 274	41 479	458	3 248
Caps/floors/collars	1 139	2 395	15 271	12 739	31 545	301	223
Exchange-traded interest rate products	48 259	49 543	24 930	0	122 732	0	0
Other interest rate contracts	3 186	1 958	210	0	5 354	31	175
Interest rate-linked derivatives	**191 388**	**212 797**	**483 060**	**433 932**	**1 321.177**	**21 809**	**19 540**
Credit derivatives (protection seller)	496	1 849	6 412	980	9 737	118	20
Credit derivatives (protection buyer)	327	1 769	6 092	1 677	9 864	10	326
Credit derivatives	**823**	**3 619**	**12 504**	**2 656**	**19 601**	**128**	**346**
Exchange-traded products	2 325	4 922	7 083	1 240	15 571	372	801
Equity forward contracts	10	0	0	0	10	0	0
Stock options	32	61	119	348	560	8	21
Purchases	31	26	66	117	239	8	0
Sales	1	35	54	231	320	0	21
Other equity derivatives	102	323	44	0	469	1	36
Equity-/index-linked derivatives	**2 469**	**5 306**	**7 247**	**1 588**	**16 609**	**381**	**858**
Commodities	1 148	548	35	0	1 732	60	37
Commodity-linked and other derivatives	**1 148**	**548**	**35**	**0**	**1 732**	**60**	**37**
Total	**298 410**	**263 589**	**538 876**	**447 859**	**1 548.734**	**26 702**	**25 383**

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

The following table shows the positive and negative fair values, as well as the nominal values of the derivative transactions, broken down by counterparty:

	Nominal values		Fair value			
EUR million	31 Dec. 2017	31 Dec. 2016	31 Dec. 2017 Positive	31 Dec. 2016 Positive	31 Dec. 2017 Negative	31 Dec. 2016 Negative
Banks in OECD countries	737 010	625 341	12 921	17 489	14 427	20 140
Banks in non-OECD countries	18 926	10 112	422	50	135	417
Public-sector agencies in OECD countries	38 442	41 072	3 789	4 928	922	1 204
Other counterparties	1 141.230	872 209	2 572	4 235	3 324	3 622
Total	**1 935.608**	**1 548.734**	**19 703**	**26 702**	**18 808**	**25 383**

Derivatives with OECD banks are generally secured by the corresponding cash collateral. The nominal amounts serve as reference values for determining mutually agreed settlement payments and represent the gross volume of all sales and purchases.

The following table shows a breakdown by purpose of the derivative financial instruments held as at the balance sheet date:

EUR million	Fair value 31 Dec. 2017 Positive	31 Dec. 2016 Positive	31 Dec. 2017 Negative	31 Dec. 2016 Negative
Derivative financial instruments and economic hedging derivatives used for trading	17 747	23 925	15 493	21 394
Derivative financial instruments used for fair value hedging	1 956	2 777	3 315	3 989
Total	**19 703**	**26 702**	**18 808**	**25 383**

64. Transfer of financial assets.

Financial assets that have been transferred but not fully derecognized.

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

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

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

31 Dec. 2017 EUR million	Transferred assets continue to be recognized in full Carrying amount of transferred assets	Carrying amount of the associated liabilities
Assets measured at fair value		
Trading assets	746	493
Securities	363	110
Receivables	383	383
Financial assets designated at fair value	40	40
Receivables	40	40
Financial investments (AfS)	2 263	1 376
Securities	2 263	1 376
Assets carried at amortized cost		
Loans and advances to banks	19 536	19 533
Public-sector loans	19 523	19 520
Other receivables	13	13
Loans and advances to customers	9 649	9 648
Public-sector loans	1 724	1 724
Mortgage loans	1 873	1 873
Other receivables	6 052	6 051

31 Dec. 2016 EUR million	Transferred assets continue to be recognized in full Carrying amount of transferred assets	Carrying amount of the associated liabilities
Assets measured at fair value		
Trading assets	1 028	539
Securities	780	291
Receivables	248	248
Financial assets designated at fair value	19	19
Receivables	19	19
Financial investments (AfS)	2 147	1 206
Securities	2 147	1 206
Assets carried at amortized cost		
Loans and advances to banks	18 275	18 274
Public-sector loans	18 261	18 260
Other receivables	14	14
Loans and advances to customers	6 853	6 853
Public-sector loans	731	731
Mortgage loans	1 990	1 990
Other receivables	4 131	4 131

65. Collateral.

Assignor.

LBBW Group pledges collateral especially within the scope of the development loan business and repurchase transaction agreements. Collateral is generally provided at commercially available terms that are determined in standard agreements. With securities repurchase agreements, the protection buyer has the right to dispose of or repledge the collateral in the meantime. Overall, assets in the amount of EUR 40 234 million (previous year: EUR 42 397 million) were assigned as collateral for liabilities or contingent liabilities.

Assignee.

On the basis of securities repurchase transactions, LBBW Group receives securities pledged as collateral, which it has the right to resell or repledge, provided it returns securities of equal value at the end of the transaction. The fair value of the financial or non-financial assets received as collateral, which the LBBW Group may sell or repledge even if the owner of such collateral is not in default, totals EUR 25 504 million (previous year: EUR 23 285 million). Of the collateral received, the LBBW Group is required to return collateral with a total fair value of EUR 25 504 million (previous year: EUR 23 285 million) to its owners. The fair value of collateral disposed of or forwarded with an obligation to return the securities to the owner amounted to EUR 5 080 million (previous year: EUR 5 851 million).

66. Offsetting financial assets and liabilities.

The Group is obliged to report financial assets and liabilities that meet the accounting offsetting criteria at their net value in the balance sheet. The following tables contain details about the offsetting effects on the consolidated balance sheet as well as potential effects from master netting agreements.

The featured transactions are usually closed on the basis of master agreements, the conditional or unconditional rights to offset receivables, liabilities and collateral received or pledged. A conditional netting right is given, for example, if the legal claim exists only in the case of insolvency or breach of contract. In accordance with IAS 32.42, transactions for which there is no legal right to netting of receivables and liabilities and/or no settlement on a net basis or no simultaneous settlement is planned, are not netted.

The collateral detailed is pledged mainly on the basis of repurchase agreements and liens, whereby collateral may only be offset in legally agreed cases (e.g. in insolvency). In the case of repurchase agreements, the receiver is obliged to return the transferred financial instruments at the end of the term. However, the receiver has the right to regularly sell or pledge the collateral to third parties.

The net amount of the individual financial instruments recognized in the balance sheet is calculated according to the measures shown in the »Accounting and valuation methods« section. Collateral in the form of financial instruments and the cash collateral are stated at the fair value.

Assets.

31 Dec. 2017				Amounts that are not subject to offsetting			
					Collateral received		
EUR million	Gross amount of financial assets	Offsetting amount	Net amount of recognized financial assets	Effect of master netting agreements	Financial instruments	Cash collateral	Net amount
Current account claims	35	– 6	29	0	0	0	29
Receivables from securities repurchase and lending agreements	25 396	– 4 143	21 253	– 1 936	– 18 927	0	389
Derivatives	28 773	– 11 245	17 529	– 10 587	– 1	– 3 385	3 556
Total	**54 205**	**– 15 394**	**38 811**	**– 12 523**	**– 18 928**	**– 3 385**	**3 975**

31 Dec. 2016				Amounts that are not subject to offsetting			
					Collateral received		
EUR million	Gross amount of financial assets	Offsetting amount	Net amount of recognized financial assets	Effect of master netting agreements	Financial instruments	Cash collateral	Net amount
Current account claims	33	– 30	3	0	0	0	3
Receivables from securities repurchase and lending agreements	23 002	– 2 296	20 707	– 4 978	– 15 718	– 7	2
Derivatives	39 316	– 14 747	24 569	– 15 371	– 12	– 3 422	5 763
Total	**62 351**	**– 17 073**	**45 278**	**– 20 350**	**– 15 730**	**– 3 429**	**5 769**

As at 31 December 2017 the net amount of recognized current account claims was shown in the balance sheet item loans and advances to banks at EUR 0 million (previous year: EUR 3 million) and in loans and advances to customers at EUR 29 million (previous year: EUR 1 million).

The respective net amounts of the securities repurchase and lending agreements are recognized in the following balance sheet items: EUR 10 358 million in loans and advances to banks, (previous year: EUR 7 716 million), EUR 10 830 million in loans and advances to customers (previous year: EUR 12 318 million) as well as EUR 65 million in financial assets measured at fair value through profit or loss (previous year: EUR 673 million).

As in the previous year, the net receivables from derivative transactions were also recognized in full in the financial assets measured at fair value through profit or loss balance sheet item.

The cash collateral was shown as at the reporting date at EUR 2 717 million under Deposits from banks and at EUR 668 million under Deposits from customers.

Equity and liabilities.

31 Dec. 2017				Amounts that are not subject to offsetting			
					Pledged collateral		
EUR million	Gross amount of financial liabilities	Offsetting amount	Net amount of recognized financial liabilities	Effect of master netting agreements	Financial instruments	Cash collateral	Net amount
Current account liabilities	175	–6	169	0	0	0	169
Liabilities from securities repurchase and lending agreements	8 864	–4 143	4 720	–1 936	–2 784	0	0
Derivatives	28 027	–11 245	16 782	–10 587	–20	–4 507	1 669
Total	**37 066**	**–15 394**	**21 672**	**–12 523**	**–2 804**	**–4 507**	**1 839**

31 Dec. 2016				Amounts that are not subject to offsetting			
					Pledged collateral		
EUR million	Gross amount of financial liabilities	Offsetting amount	Net amount of recognized financial liabilities	Effect of master netting agreements	Financial instruments	Cash collateral	Net amount
Current account liabilities	176	–30	146	0	0	0	146
Liabilities from securities repurchase and lending agreements	10 539	–2 296	8 244	–4 978	–3 265	0	0
Derivatives	37 525	–14 747	22 778	–15 371	0	–5 799	1 607
Total	**48 241**	**–17 073**	**31 167**	**–20 350**	**–3 265**	**–5 799**	**1 754**

As at 31 December 2017, the net amount of recognized current account claims was shown in deposits from banks at EUR 10 million (previous year: EUR 12 million) and in deposits from customers at EUR 159 million (previous year: EUR 135 million).

The respective net amounts of the securities repurchase and lending agreements are recognized in the following balance sheet items: EUR 3 276 million in loans and advances to banks (previous year: EUR 3 298 million) and EUR 1 445 million in loans and advances to customers (previous year: EUR 4 946 million).

As in the previous year, the net liabilities from derivative transactions are also recognized in full in the financial assets at fair value through profit or loss balance sheet item.

The cash collateral was recognized as at the reporting date at EUR 3 746 million in the item Loans and advances to bank and at EUR 762 million under the item Loans and advances to customers.

Other notes.

67. Details on shares in other companies.

Significant restrictions on the Group's ability to access or use the Group assets.

Assets are held within the Group that are subject to contractual, legal or regulatory disposal restraints, which can restrict LBBW Group's ability to access these assets and use them to meet the Group's liabilities. The restrictions result from the cover pools of the covered bond business, assets for the collateralization of liabilities from repurchase transactions and from the pledging of collateral for liabilities from OTC derivative transactions, as well as for liabilities issued by consolidated structured entities. Regulatory requirements, requirements of central banks and local company law rules can restrict the usability of assets.

There are no significant restrictions from property rights of non-controlling interests that restrict the ability of the Group to transfer assets or meet liabilities.

The carrying amounts of the assets with significant restrictions amount to:

EUR million	31 Dec. 2017	31 Dec. 2016
Assets with restrictions on disposal		
Loans and advances to banks	21 151	20 364
Loans and advances to customers	41 467	41 300
Financial assets measured at fair value through profit or loss	6 436	8 192
Financial investments (AfS)	4 047	3 584
Other	1 073	926
Total	**74 172**	**74 366**

The assets with significant restrictions comprise mainly the EUR 33 billion (previous year: EUR 36 billion) in cover assets in the covered bond business, financial assets of EUR 32 billion (previous year: EUR 28 billion) that have been transferred but not fully derecognized in securities repurchase or lending transactions and development loan transactions (see Note 65) and collateral pledged for liabilities from OTC derivative transactions in the amount of EUR 5 billion (previous year: EUR 7 billion).

Shares in consolidated structured entities.

A total of 9 (previous year: 10) structured entities were included in the consolidated financial statements, whose relevant activities are not influenced by voting or comparable rights. LBBW maintains business relationships with these companies and also acquires commercial paper from the consolidated structured entities as part of investment decisions.

As at 31 December 2017, liquidity lines in the amount of EUR 3 002 million (previous year: EUR 2 664 million) were provided to the consolidated structured entities

Shares in joint agreements and associates.

Two joint ventures and two associates are of material importance to the LBBW Group due to the carrying amount of the equity investment or the total assets and proportionate earnings and are accounted for using the equity method.

Summarized financial information for each joint venture that is material to the LBBW Group and accounted for using the equity method is shown in the following table:

EUR million	GIZS GmbH & Co. KG, Frankfurt am Main[1,2] 31 Dec. 2017	31 Dec. 2016
Revenues	8	39
Scheduled amortization	–2	–2
Profit/loss from continuing operations	–13	–3
Net consolidated profit/loss in equity	1	0
Net consolidated total comprehensive income	**–12**	**–3**
Current assets	8	15
Cash and cash equivalents	6	12
Other current assets	3	3
Non-current assets	12	12
Current liabilities	6	12
Current financial liabilities	6	12
Net assets of the joint venture	**15**	**15**
Share of capital (in %)	33	33
Share of net assets	5	5
Other adjustments	–5	–5
Carrying amount of the equity investment	**0**	**0**

1 Principal place of business.
2 Strategic equity investment.

The Other adjustments item includes impairments on the equity investments.

GIZS GmbH & Co. KG, in which LBBW holds a 33% stake in the capital and voting rights, holds and manages the equity investment in a joint venture of institutions of the German banking industry, whose purpose is to establish, operate and further develop a process for mobile and online payments.

The structured entity Sealink Funding Designated Activity Company with registered offices in Dublin, Ireland, in which LBBW holds no stake in the capital and voting rights, was included as a material joint venture in the consolidated financial statements of LBBW for the first time using the equity method as at 31 December 2017. In the absence of an equity investment by LBBW, the equity method cannot be applied for Sealink Funding Designated Activity Company. Securities of the former Sachsen LB of originally EUR 17.3 billion were bundled in the structured entity. As at the reporting date, the remaining Sealink portfolio still comprised securities with a carrying amount totaling EUR 63 million. There was also a loan of EUR 1.8 billion secured by cash as at 31 December 2017. Additional financial information on Sealink Funding Designated Activity Company was not to hand as at 31 December 2017. Additional information about the background and effects of the sale of the Sealink portfolio with a view to detailed effects is described in detail in the balance sheet in the financial position.

Summarized financial information for each associate that is material to the LBBW Group is shown in the following table:

	BWK GmbH Unternehmensbeteiligungs-gesellschaft, Stuttgart[1,2]		Hypo Vorarlberg Bank AG, Bregenz[1,2]	
EUR million	31 Dec. 2017	31 Dec. 2016	31 Dec. 2017	31 Dec. 2016
Revenues	16	29	305	384
Profit/loss from continuing operations	7	18	72	83
Net consolidated profit/loss in equity	4	8	0	1
Net consolidated total comprehensive income	**12**	**26**	**73**	**85**
Current assets	110	133	2 398	3 245
Non-current assets	257	238	10 585	10 002
Current liabilities	5	5	4 567	6 638
Non-current liabilities	7	8	7 351	5 597
Contingent liabilities	1	1	356	375
Net assets of the associate	**355**	**359**	**1 066**	**1 012**
Share of capital (in %)	40	40	24	24
Share of net assets	142	144	255	243
Other adjustments	–27	–42	–139	–126
Carrying amount of the equity investment	**115**	**101**	**116**	**116**

1 Principal place of business.
2 Strategic equity investment.

The summarized financial information represents contributions of the IFRS financial statements of the associated entity, adjusted to the Group-wide accounting rules.

The Other adjustments item includes mainly impairments on the equity investments.

As an investor with a long-term perspective, BWK GmbH Unternehmensbeteiligungsgesellschaft, in which LBBW holds a 40% stake in the capital and voting rights, offers equity solutions to SMEs.

Hypo Vorarlberg Bank AG, in which LBBW has a 24% share of the voting rights, offers banking services for retail and corporate customers.

During the year under review, LBBW received dividends in the amount of EUR 6 million (previous year: EUR 22 million) from its equity investment in BWK GmbH Unternehmensbeteiligungsgesellschaft and EUR 3 million (previous year: EUR 1 million) from Hypo Vorarlberg Bank AG.

The shares in the success and the carrying amount of the share for each joint venture and associate, which are deemed insignificant individually and are accounted for using the equity method, are shown in the following table:

	Associates		Joint ventures	
EUR million	31 Dec. 2017	31 Dec. 2016	31 Dec. 2017	31 Dec. 2016
Portion of the profit or loss from continuing operations	1	0	8	– 1
Share in net consolidated total comprehensive income	1	1	8	– 1
Total carrying amounts of the Group shares	9	8	4	7

Other unrecognized liabilities amounting to EUR 2 million (previous year: EUR 5 million) exist in connection with the shares in associates and joint ventures, consisting of contingent liabilities of EUR 2 million (previous year: EUR 4 million) and irrevocable loan commitments of EUR 0 million (previous year: EUR 1 million).

Shares in non-consolidated structured entities.

Structured entities are entities designed in a manner that voting and comparable rights do not represent the dominant factor when determining which party exercises controlling influence. This is the case, for example, when the voting rights relate solely to administrative duties and the relevant activities that significantly influence the entities' returns are controlled by contractual agreements or virtual positions of power.

A structured entity is often defined by several or all of the following characteristics:

- limited activities;
- narrow and clearly defined purpose;
- insufficient equity capital to conduct its relevant activities without secondary financial support;
- funding through the pooling of credit and other risks (tranches) in the form of multiple contractual instruments that are linked to the investors.

Accordingly, structured entities are consolidated in the principles shown in Note 3, if LBBW Group can exercise a controlling influence because of its relationships with the structured entity. The information on the nonconsolidated structured entities is based on structured entities that are not consolidated as LBBW Group cannot exercise any controlling influence over them. This must be reported if LBBW Group is subject to variable returns from the activities of the structured entities from its contractual and non-contractual relationships (»shares«). Shares in non-consolidated structured entities comprise loans and credits, equity instruments, various types of derivative, guarantees and liquidity facilities.

LBBW Group has business relationships with the following types of non-consolidated structured entities:

- Funds: LBBW Group provides customers with opportunities to invest in funds established and sponsored by LBBW itself, and invests in funds established and sponsored by third parties. Funds allow investors to make targeted investments in assets in line with a fixed investment strategy. Financing is generally provided through the issue of fund units and usually secured by the assets held by the structured entity. LBBW Group may operate as manager of the structured entity, investor, trustee for other investors or in another function.
- Securitization vehicles: Securitization vehicles offer investment opportunities to investors in diversified portfolios of different assets, such as, for example, leasing, trade receivables and the like. The securitization vehicles are financed through the issue of tranched debentures, whose disbursements are dependent on the performance of the assets of the securitization vehicles and from the position of the respective tranche within the payment waterfall. LBBW Group participates in the funding or structuring of such vehicles.
- Financing companies: Financing companies (including leasing companies) are established for the purpose of funding various assets or transactions. They follow a specific company purpose, which means that the relevant activities are predetermined or not controlled by voting or comparable rights. As a lender, LBBW provides funding for these structured entities that are secured by assets held by the company.
- Other: Other structured entities are entities that cannot be assigned to any of the types stated above.

The scope of a structured entity depends on its type:

- Funds: Volume of assets under management
- Securitizations: Nominal value of the issued securities
- Financing companies: Total assets
- Other structured entities: Total assets

The scope of non-consolidated structured entities without publicly available data is stated with the nominal value of LBBW's exposure.

The scope of the non-consolidated structured entities is as follows:

EUR million	Securitization vehicle		Funds		Financing companies		Other		Total	
	31 Dec. 2017	31 Dec. 2016	31 Dec. 2017	31 Dec. 2016	31 Dec. 2017	31 Dec. 2016	31 Dec. 2017	31 Dec. 2016	31 Dec. 2017	31 Dec. 2016
Scope of the structured entities	9 497	20 264	322 044	260 809	14 988	46 127	737	774	347 266	327 974

The following table shows the carrying amounts of the assets and liabilities, the nominal values of the off-balance-sheet obligations that concern the shares in non-consolidated structured entities, and the items in the consolidated balance sheet in which these assets and liabilities are recognized, depending on the type of structured entity:

EUR million	Securitization vehicle		Funds		Financing companies		Other		Total	
	31 Dec. 2017	31 Dec. 2016	31 Dec. 2017	31 Dec. 2016	31 Dec. 2017	31 Dec. 2016	31 Dec. 2017	31 Dec. 2016	31 Dec. 2017	31 Dec. 2016
Assets										
Receivables	3 364	6 428	3 115	2 289	1 509	1 697	6	0	7 995	10 414
Loans and advances to banks	0	30	0	0	0	0	0	0	0	30
Loans and advances to customers	3 364	6 398	3 115	2 289	1 509	1 697	6	0	7 995	10 384
Financial assets measured at fair value through profit or loss	1	4	1 342	597	10	19	10	636	1 363	1 257
Trading assets	1	4	1 116	396	9	19	10	636	1 136	1 055
Positive fair values from derivative financial instruments	0	1	12	0	1	0	0	0	13	1
Fair value option	0	0	214	201	0	0	0	0	214	201
Financial investments	399	297	0	0	31	47	0	0	430	344
Other assets	0	0	0	1	0	0	0	0	0	1
Total assets	**3 764**	**6 729**	**4 458**	**2 887**	**1 550**	**1 763**	**16**	**636**	**9 788**	**12 016**
Equity and liabilities										
Liabilities	38	1 551	5 679	3 367	157	219	0	0	5 874	5 138
Deposits from customers	38	1 551	5 679	3 367	157	219	0	0	5 874	5 138
Financial liabilities measured at fair value through profit or loss	0	0	110	2 018	0	0	0	0	111	2 018
Trading liabilities	0	0	109	2 018	0	0	0	0	109	2 018
Negative fair values from derivative financial instruments	0	0	1	0	0	0	0	0	1	0
Total equity and liabilities	**39**	**1 552**	**5 789**	**5 385**	**157**	**219**	**0**	**0**	**5 985**	**7 156**
Off-balance-sheet obligations	0	0	108	22	140	206	0	0	248	228

The maximum potential losses from shares in non-consolidated structured entities depend on the type of shares. The maximum risk of loss on assets presented in the table corresponds to the balance sheet figures (after allowances for losses on loans and advances if necessary). Of the derivatives with a carrying amount of EUR 37 million (previous year: EUR 220 million) and EUR 111 million (previous year: EUR 23 million) included in the trading assets or trading liabilities, respectively, and the off-balance-sheet obligations, including loan commitments, guarantees and liquidity facilities, the nominal amounts represent the maximum potential losses. The nominal value for derivatives with a positive replacement value is EUR 3 115 million (previous year: EUR 25 727 million) while that for derivatives with a negative replacement value is EUR 7 991 million (previous year: EUR 2 697 million). The maximum risk of loss does not correspond to the expected loss and does not take into account existing collateral and hedge relationships that limit the economic risk. Debt restructuring also results in off-balance-sheet obligations with regard to one structured entity (see Note 70).

LBBW Group received interest income and fee and commission income from financing its shares in these nonconsolidated structured entities. Further income was generated from management fees and possible profit-sharing within the scope of fund management operations by LBBW. In addition, income is realized from the valuation or sale of securities issued by non-consolidated structured entities.

Sponsored non-consolidated structured entities in which LBBW Group does not hold any shares as at the reporting date.
LBBW participated as a sponsor for the launch or marketing of various structured entities in which it held no shares as at the reporting date. A structured entity is considered to be sponsored if it is reasonably associated with LBBW and supported by LBBW. Support in this respect can comprise the following services:

- Using the name »LBBW« for the structured entity;
- LBBW Group assets are transferred or sold to this structured entity;
- The structured entity was funded by LBBW Group and/or start-up capital provided by LBBW.

LBBW received gross income of EUR 6 million (previous year: EUR 6 million) from fees and commission from business transactions with sponsored, non-consolidated funds and securitizations in which LBBW Group holds no shares as at the reporting date. In 2017 assets totaling EUR 1 192 million (previous year: EUR 3 957 million) were transferred from third parties to sponsored, non-consolidated structured entities within the scope of preliminary sales and replenishment agreements.

68. Leasing business.

Finance lease – LBBW as a lessor.

The following reconciliation of the gross investment value to the present value of the minimum leasing payments has been prepared for finance lease transactions which are shown under loans and advances to customers:

EUR million	31 Dec. 2017	31 Dec. 2016
Gross investment value	**5 746**	**5 410**
Up to 1 year	1 827	1 806
More than 1 year to 5 years	3 597	3 208
More than 5 years	323	396
– Unrealized financial income	**– 380**	**– 469**
= Net investment value	**5 367**	**4 941**
– Present value of unguaranteed residual values	– 2	– 210
= Present value of receivables from minimum leasing payments	**5 364**	**4 731**
Up to 1 year	1 691	1 578
More than 1 year to 5 years	3 369	2 847
More than 5 years	304	306

From the standpoint of the lessor, gross investment in the lease is the aggregate of the minimum leasing payments under a finance lease and any unguaranteed residual value accruing to the lessor. Minimum leasing payments are the payments over the lease term that the lessee is, or can be required, to make excluding contingent rent, costs for services and taxes to be paid by and reimbursed to the lessor, together with any guaranteed residual values. Initial direct costs are included in receivables from finance lease contracts. The net investment value is the present value of the gross investment; the discount is thus based on the interest rate implicit in the lease from the lessor's perspective.

The cumulative write-downs for uncollectible outstanding minimum leasing payments amounted to EUR -56 million on the reporting date (previous year: EUR -65 million).

Finance lease – LBBW as a lessee.

The leased assets from finance leases shown under property and equipment are comprised of the following types:

EUR million	31 Dec. 2017	31 Dec. 2016
Buildings	1	1
Land	1	1
Total leased assets under finance leases	**2**	**2**

The carrying amount of finance lease assets in property and equipment in the amount of EUR 2 million (previous year: EUR 2 million) refers mainly to one building with land. A property management company as the lessor and LBBW as the lessee entered into a lease agreement for an administrative building in Mainz, Germany. The lease term is 20 years with one conversion point of 31 August 2020. The lessee has an option to buy at the end of the rental period at the market value of the leased property determined in the contract.

The following reconciliation of the gross investment value to the present value of the minimum lease payments has been prepared for the liabilities from finance lease transactions included in Other liabilities, among other things:

EUR million	31 Dec. 2017	31 Dec. 2016
Future minimum leasing payments	**3**	**4**
Up to 1 year	1	1
More than 1 year to 5 years	2	3
= Present value of future minimum leasing payments	**3**	**3**
Up to 1 year	1	1
More than 1 year to 5 years	2	2

Operating lease – LBBW as a lessor.
The carrying amounts of assets leased within operating leases under property and equipment, which mainly constitute agreements concerning leasing of LBBW's own properties and buildings, are broken down as follows:

EUR million	31 Dec. 2017	31 Dec. 2016
Buildings	61	64
Land	32	33
Total operating lease	**93**	**96**

The carrying amounts of the investment property that is rented within the scope of operating lease agreements amount to EUR 554 million (previous year: EUR 574 million).

The following payments are expected from the leases mentioned:

EUR million	31 Dec. 2017	31 Dec. 2016
Up to 1 year	53	49
More than 1 year to 5 years	159	143
More than 5 years	110	202
Future minimum leasing payments from non-terminable leasing contracts	**322**	**394**

Operating lease – LBBW as a lessee.
Leases for which LBBW is the lessee yield payment obligations of:

EUR million	31 Dec. 2017	31 Dec. 2016
Up to 1 year	62	56
More than 1 year to 5 years	186	114
More than 5 years	63	74
Future minimum leasing payments from non-terminable leasing contracts	**311**	**244**

In the 2017 financial year, minimum leasing payments of EUR –44 million (previous year: EUR –38 million) were recorded as expenses. These items comprise mainly expenses incurred for rent for business premises and software.

69. Related party disclosures.

Related party transactions are concluded by the LBBW Group in the ordinary course of business.

These include the shareholders of LBBW (see Note 21), controlled subsidiaries that are however not consolidated for reasons of materiality, structured entities, associates accounted for using the equity method, joint ventures, persons in key positions and their relatives, as well as companies controlled by these individuals. Persons in key positions include the members of the Board of Managing Directors and of the Supervisory Board, including members of LBBW (Bank) as parent company. Other related parties/companies also include equity investments by the shareholders and companies on which persons in key positions and their families can exert a dominant or material influence.

Information on the compensation of and transactions with key management individuals is shown in Note 77.

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

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

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/ companies
Loans and advances to banks	0	0	0	88	0	393
Loans and advances to customers	1 515	2	58	15	1 835	839
Allowances for losses on loans and advances	0	0	-22	0	-6	0
Financial assets measured at fair value through profit or loss	1 486	0	0	53	0	426
Financial investments	40	0	60	200	5	0
Other assets	0	0	1	0	0	0
Total assets	**3 041**	**2**	**96**	**356**	**1 834**	**1 658**
Deposits from banks	0	0	2	0	0	9 042
Deposits from customers	1 199	6	69	97	1 885	1 886
Financial liabilities measured at fair value through profit or loss	1	0	0	53	0	151
Subordinated capital	93	0	0	8	0	203
Total equity and liabilities	**1 293**	**6**	**71**	**159**	**1 885**	**11 282**
Contingent liabilities	**20**	**0**	**5**	**10**	**0**	**268**

31 Dec. 2016 EUR million	Shareholders	Members of the Board of Managing Directors and Supervisory Board	Non-consolidated subsidiaries	Associates	Joint ventures	Other related parties/ companies
Loans and advances to banks	0	0	0	91	0	343
Loans and advances to customers	1 471	1	137	55	67	704
Allowances for losses on loans and advances	0	0	-38	0	-25	0
Financial assets measured at fair value through profit or loss	1 855	0	437	76	1	707
Financial investments	0	0	244	77	6	4 339
Other assets	0	0	1	0	0	0
Total assets	**3 326**	**1**	**779**	**299**	**48**	**6 093**
Deposits from banks	0	0	2	1	0	8 280
Deposits from customers	703	9	144	193	17	6 292
Financial liabilities measured at fair value through profit or loss	1	0	4	78	0	642
Subordinated capital	92	0	0	8	0	0
Total equity and liabilities	**796**	**9**	**150**	**280**	**17**	**15 214**
Contingent liabilities	**8**	**0**	**3**	**31**	**6**	**160**

Transactions with related parties and companies resulted in material effects in net interest income of EUR 53 million (previous year: EUR 129 million) and in allowances for losses on loans and advances of EUR 0 million (previous year: EUR -1 million).

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

70. Off-balance-sheet transactions.

Contingent liabilities.

EUR million	31 Dec. 2017	31 Dec. 2016
Sureties and guarantee agreements	6 734	5 971
Contingent liabilities from joint ventures	2	4
Other contingent liabilities	77	55
Total	**6 813**	**6 031**

Contingent liabilities are dominated by sureties and guarantee agreements.

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

This does not include financial guarantees (IAS 39.9).

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

Other contingent liabilities include legal risks as well as payment obligations towards the restructuring fund (»bank levy«) payable in part or in full on first demand in the event of resolution measures and for which cash collateral has been provided.

The German Deposit Guarantee Act (Einlagensicherungsgesetz – EinSiG), which came into force on 3 July 2015, governs the future financial resources of statutory and bank-related guarantee systems, including the bank-related guarantee system of the Sparkassen-Finanzgruppe.
LBBW makes an irrevocable commitment to the owner of the bank-related guarantee system, German Savings Bank Association (Deutscher Sparkassen- und Giroverband – DSGV), to make further payments on first demand e. g. in the compensation case pursuant to Section 10 EinSiG, in addition to the annual contribution. Other contingent liabilities include collateral provided in this context.

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

- Pursuant to Section 5 (10) of the bylaws of the German Deposit Protection Fund, LBBW undertook to indemnify Bundesverband Deutscher Banken e.V., Berlin, against any and all losses incurred by the latter as a result of assistance provided to credit institutions that are majority-owned by Landesbank Baden-Württemberg.
- For letters of comfort issued please see the list of shareholdings (Note 75).
- Liabilities from the guarantee obligation: LBBW (Bank) is liable indefinitely for the liabilities of DekaBank Deutsche Girozentrale, Berlin and Frankfurt am Main, and of former LBS Landesbausparkassen Baden-Württemberg, Stuttgart and Karlsruhe created up to 18 July 2001.
  This also applies externally to the liabilities of the following credit institutions, provided that these liabilities arose during the time when LBBW was a guarantor of these credit institutions: the former Landesbank Schleswig-Holstein Girozentrale, Kiel, and the former LRP Landesbank Rheinland-Pfalz, Mainz.

Other obligations.

EUR million	31 Dec. 2017	31 Dec. 2016
Irrevocable loan commitments	22 412	22 784
Total	**22 412**	**22 784**

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

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

EUR million	31 Dec. 2017	31 Dec. 2016
Payment obligations and joint liability	496	535
Obligations from investment projects started	101	60
Miscellaneous	99	28
Total	**696**	**623**

The following liability relationships exist in addition to the other financial obligations shown in the above table:

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

Payment obligations and joint liability consist of additional funding obligations to central counterparties in the amount of EUR 403 million (previous year: EUR 421 million). In addition to the items shown in the table, obligations of EUR 309 million (previous year: EUR 270 million) arise each year from rental and lease agreements.

Contingent claims.

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

Fiduciary transactions.

The trust activities which are not carried in the balance sheet involve the following types of assets and liabilities and break down as follows:

EUR million	31 Dec. 2017	31 Dec. 2016
Loans and advances to banks	335	394
Loans and advances to customers	157	206
Financial investments	2	2
Other assets	31	34
Total trust assets[1]	**526**	**636**
Deposits from banks	524	634
Deposits from customers	2	2
Total trust liabilities[1]	**526**	**636**

1 Including receivables and liabilities on behalf of others for the account of a third party (administrative loans).

71. PIIS exposure.

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

The exposure of the LBBW Group to the three sectors of financial institutions, companies and the public-sector entities with registered offices in Ireland, Italy, Portugal and Spain declined slightly to EUR 2.5 billion compared with the previous year (EUR 2.6 billion).

Exposure to Spain fell from EUR 0.7 billion to EUR 0.5 billion during the period under review. The decline in particular in the trading assets of banks (EUR –169 million) contributed to this development.

In contrast, the volume of exposure to Italy increased slightly during the period under review from EUR 1.6 billion to EUR 1.7 billion, while the volume of exposure to financial institutions and public-sector entities declined marginally, the exposure to companies, especially in the form of financial investments and loans, rose by EUR 136 million.

72. Counterparty risk.

The disclosure obligations in accordance with IFRS 7.36 and 7.37 are met with the following tables. The quantitative information on credit risk is based on the management approach. It is not restricted to financial instruments only.

Maximum counterparty risk together with risk-reducing measures.

31 Dec. 2017 EUR million	Gross exposure	Netting/ collateral	Credit derivatives (protection buy)	Credit collateral	Net exposure
Cash and cash equivalents	6 118	0	0	0	6 118
Assets measured at fair value					
Trading assets	58 015	36 392	7 828	314	13 482
Financial assets designated at fair value	629	213	0	0	416
Positive fair values from derivative hedging instruments	4 196	4 007	0	8	182
Financial investments (AfS)	21 954	0	0	0	21 954
interest-bearing assets	19 669	0	0	0	19 669
non-interest-bearing assets	2 285	0	0	0	2 285
Assets carried at amortized cost					
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
of which finance leases	4 052	0	0	52	4 000
Financial investments (LaR)	1 657	0	0	0	1 657
interest-bearing assets	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**

31 Dec. 2016 EUR million	Gross exposure	Netting/ collateral	Credit derivatives (protection buy)	Credit collateral	Net exposure
Cash and cash equivalents	4 451	0	0	0	4 451
Assets measured at fair value					
Trading assets	79 699	47 543	11 111	642	20 402
Financial assets designated at fair value	626	200	0	24	402
Positive fair values from derivative hedging instruments	5 265	5 082	0	20	163
Financial investments (AfS)	20 816	0	0	0	20 816
interest-bearing assets	18 509	0	0	0	18 509
non-interest-bearing assets	2 307	0	0	0	2 307
Assets carried at amortized cost					
Loans and advances to banks	48 497	16 430	0	996	31 071
Loans and advances to customers	110 637	17 553	0	38 956	54 128
of which finance leases	3 603	0	0	78	3 525
Financial investments (LaR)	5 438	0	0	0	5 438
interest-bearing assets	5 417	0	0	0	5 417
non-interest-bearing assets	20	0	0	0	20
Total	**275 428**	**86 808**	**11 111**	**40 638**	**136 871**
Loan commitments and other agreements	49 239	0	0	3 614	45 625
Total exposure	**324 667**	**86 808**	**11 111**	**44 252**	**182 496**

As at the reporting date of 31 December 2017, 99.6 % (previous year: 99.5 %) of the assets of the total portfolio of EUR 307 billion are neither impaired nor overdue.

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

Portfolio quality – exposure in arrears and not impaired.

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

As at the reporting date of 31 December 2017, this applied to gross exposure of EUR 202 million (previous year: EUR 349 million). Close to 60 % of these transactions are less than three months overdue.

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

31 Dec. 2017 EUR million	<=1 month	> 1 to 3 months	> 3 to 6 months	> 6 to 9 months	> 9 to 12 months	> 12 months	Total
Assets carried at amortized cost							
Loans and advances to banks	0	0	1	0	0	0	1
Loans and advances to customers	92	24	16	13	1	54	200
of which finance leases	4	3	1	0	0	3	10
Total	**92**	**24**	**17**	**13**	**1**	**54**	**200**
Loan commitments and other agreements	2	0	0	0	0	0	2
Total exposure	**94**	**25**	**17**	**13**	**1**	**54**	**202**

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

Portfolio quality – impaired assets.

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

EUR million	31 Dec. 2017	31 Dec. 2016
Assets carried at amortized cost		
Loans and advances to banks	1	3
Loans and advances to customers	913	1 214
of which finance leases	57	73
Total	**914**	**1 218**
Loan commitments and other agreements	111	93
Total exposure	**1 025**	**1 310**

Impaired assets decreased by EUR 285 million compared with 31 December 2016. The change mainly related to loans and advances to customers.

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

	31 Dec. 2017		31 Dec. 2016	
	Total in EUR million	Total in %	Total in EUR million	Total in %
1) Termination/repayment/insolvency	171	16.7	195	14.9
2) Arrears/infringement > 90 days [1]	88	8.6	133	10.1
3) Improbable repayment [2]	766	74.7	982	75.0
Total	**1 025**	**100.0**	**1 310**	**100.0**

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

Forbearance.

As at 31 December 2017, LBBW Group holds assets with a net carrying amount of EUR 0.8 billion (previous year: EUR 1.4 billion) for which forbearance measures were adopted. Modifications in relation to the terms and conditions were mainly granted. A EUR 0.3 billion previous year: EUR 0.2 billion) sub-portfolio of the assets for which forbearance measures have been adopted comprises impaired assets.

LBBW has received guarantees of EUR 0.1 billion (previous year: EUR 0.3 billion) for assets with forbearance measures.

73. Capital management.

Capital management at LBBW is designed to ensure solid capitalization within the LBBW Group, both in times of normal business operations and under stress conditions. In order to guarantee adequate capital and hence the associated permanent viability of LBBW from various perspectives, the capital ratios and structures are analyzed from an economic, present-value view point (1st control loop) as well as from a regulatory perspective (2nd control loop). Both control loops focus on achieving the company targets for normal business operations, while making adequate provisions for stress resistance under stress conditions.

The integrated risk and capital management is carried out by the Group's Board of Managing Directors. Among other things, the Asset Liability Committee (ALCo) supports the Board of Managing Directors in structuring the balance sheet, managing capital and liquidity, in funding and in managing market-price risks. The ALCo prepares decisions in this respect that are subsequently met by the Group's Board of Managing Directors.

On matters relating to risk management and capital management under economic aspects, the Risk Committee (RiskCom) helps prepare decisions for the Board of Managing Directors with regard to risk monitoring, the risk methodology and the risk strategy for the Group as a whole, and in relation to compliance with the regulatory requirements.

The coordinating Regulatory/Accounting Committee evaluates at an early stage the requirements of the large number of provisions of banking supervisory law and accounting that are relevant for management purposes and takes the measures required.

Capital allocation and longer-term strategic capital management is carried out during the planning process integrated on an annual basis (with a five-year planning horizon) with the forecast during the year, and is decided and monitored continuously by the Group's Board of Managing Directors. The Supervisory Board approves the business plan submitted for the coming year and takes note of the medium-term planning contained therein.

Economic capital.

Besides the capital backing stipulated by regulatory bodies, the capital backing required from LBBW's point of view for economic purposes, calculated using the Bank's own risk models, is monitored in an additional steering circle.

See the risk and opportunity report for details.

Regulatory capital.

LBBW Group's capital ratios are calculated according to the provisions of Article 92 CRR in conjunction with Article 11 CRR. Accordingly, the ratios to be fulfilled at all times are:

- Common equity Tier 1 capital ratio (basis: CET1 capital) of 4.5%, plus relevant capital buffer
- Tier 1 ratio (basis: common equity Tier 1 capital and additional Tier 1 capital) of 6.0%
- Total capital ratio (basis: common equity Tier 1 and additional Tier 1 capital, as well as supplementary capital) of 8.0%

The ECB is conducting the Supervisory Review and Evaluation Process (SREP). Based on this process, the ECB determined that, beyond the minimum requirements under Article 92 CRR, LBBW is required to maintain a CET1 capital ratio of 8.08% at all times on a consolidated basis in 2017. This ratio includes the aforementioned common equity Tier 1 capital ratio and the capital conservation buffer, the buffer to be observed for the first time in 2017 for other systemically relevant banks and the additional regulatory capital requirements within the scope of the SREP process.

Furthermore, a bank-specific countercyclical capital buffer must be held. This capital buffer can be imposed by countries in the European Economic Area and by third-party states for the major risk exposures in their country. In addition to this, the Bank has to meet the requirements of the Pillar II Capital Guidance (P2G) as additional capital guidance.

The ratios result from the relevant capital components in relation to the total exposure amount, expressed in percent. The total exposure amount is calculated as the risk weighted exposure amounts for the credit and dilution risk, the counterparty risk from the trading book business, market price risk (position, foreign currency and commodity position risks), the risks of credit valuation adjustments for OTC derivatives and operational risk. These ratios required by the supervisory authorities were maintained at all times during the 2017 financial year.

The own funds derive from the sum of Tier 1 and Tier 2 capital.

Tier 1 capital consists of common equity Tier 1 capital and additional Tier 1 capital, whereby the common equity Tier 1 capital comprises the paid-in capital, associated premiums (capital reserves), retained earnings and cumulative other income. The transitional rules require cumulative other income to be taken into account in the common equity Tier 1 capital in the amount of 80%.

The additional Tier 1 capital comprises the silent partners' contributions. Due to the transitional provisions that will be in place until the end of 2021, they may continue to be included this capital heading within the ranges applicable in accordance with Article 486 CRR in conjunction with Article 31 SolvV. Amounts that are no longer included in these ranges may be included in this capital heading, provided the conditions for consideration as supplementary capital are met.

Supplementary capital comprises long-term securitized subordinated liabilities as well as long-term subordinated loans and profit participation rights that meet the requirements of Article 63 CRR and the associated premiums. The supplementary capital instruments are subject to a day specific reduction in the last five years of their term.

Intangible assets, deferred tax claims from loss carryforwards dependent on future profitability and the value adjustment deficit for receivables that were calculated pursuant to the IRB approach, must be deducted from the common equity Tier 1 capital. In addition, the gains or losses from own liabilities measured at fair value due to changes in the credit ratings of LBBW Group, gains and losses from derivative liabilities recognized at fair value resulting from the Bank's own credit risk, as well as value adjustments due to the requirements for a prudent valuation must be deducted when calculating the own funds.

The transitional provisions in accordance with Article 467 et seqq. in conjunction with Article 481 CRR should be applied for these deductions and exclusions from common equity Tier 1 capital. Deductions of 60% from the CET1 capital must therefore be taken into account until year-end 2017 for deferred tax from loss carryforwards, while the remaining 40% shall be recognized as risk weighted assets with a risk weight of 0%. The following must be taken into account as deductions of 80% from the CET1 capital: intangible assets, the value adjustment deficit, as well as gains/losses from derivative liabilities recognized at fair value resulting from LBBW's own credit risk. The remaining 20% of the aforementioned deductions for the current loss and immaterial assets is deducted from additional Tier 1 capital. The remaining value adjustment deficit of 20% that is not included in CET1 capital is deducted in equal amounts from additional Tier 1 capital and Tier 2 capital.

As part of market-smoothing operations, supplementary capital components securitized in securities may be repurchased within the applicable limits. Some directly or indirectly held supplementary capital instruments that have been repurchased must be deducted from the supplementary capital. The fixed ceiling was complied with at all times in 2017.

LBBW applies the internal ratings-based approach (basic IRB approach) approved by the German Federal Financial Supervisory Authority (BaFin) for calculating capital backing for counterparty risks arising from the main exposure classes. Equity requirements for receivables for which permission has not been received to use a rating procedure are calculated in accordance with the credit risk standardized approach (CRSA).

The own funds in accordance with CRR are calculated based on the IFRS financial statements of the entities included in the regulatory scope of consolidation.

The following table shows the structure of the LBBW Group's own funds:

EUR million	31 Dec. 2017	31 Dec. 2016
Own funds	**16 869**	**16 814**
Tier 1 capital	12 795	12 822
of which common equity Tier 1 capital (CET1)	11 955	12 033
of which additional Tier 1 capital (AT 1)	840	789
Supplementary capital (Tier 2)	4 075	3 992
Total amount at risk	**75 728**	**77 406**
Risk weighted exposure amounts for the credit, counterparty and dilution risk, as well as advance payments	63 684	62 387
Total exposure amount for position, foreign exchange and commodity risk	5 608	8 425
Total risk exposure amount for operational risks	4 514	4 715
Total amount of risk due to CVA	1 922	1 879
Total capital ratio (in %)	**22.3**	**21.7**
Tier 1 capital ratio in %	**16.9**	**16.6**
Common equity Tier 1 capital ratio (in %)	**15.8**	**15.5**

EUR million	31 Dec. 2017	31 Dec. 2016
Tier 1 capital	**12 795**	**12 822**
Paid-in capital instruments	3 484	3 484
Premium	8 240	8 240
Additional Tier 1 capital (AT 1)	840	789
Retained profits, cumulative result and other reserves	1 289	1 482
Deductibles from CET 1 capital in accordance with CRR	– 1 058	– 1 173

Explanation of the changes in 2016 versus 2017.
The common equity Tier 1 (CET 1) of the LBBW Group decreased only marginally compared to the previous year. This was as a result of various effects that canceled each other out. The main reasons for this were the CRR transitional rules that were adjusted for 2017. Owing to these transitional rules, a higher deductible must be recognized at the expense of the CET 1. The new deducible item also has a reducing effect owing to the irrevocable payment obligations for the bank levy and the profit distributed to shareholders in 2017. The abolition of the deductible item for goodwill in 2017 had a counteracting effect, thus increasing the CET 1. On the other hand, the higher burden on the CET 1 due to the changed transitional rules led to a lower deduction from the additional Tier 1 (AT 1) capital and the supplementary capital (T 2).

Additional Tier I capital (AT 1) increased due to the changes in deductibles and the way in which they are included under the CRR transitional rules. Terminations and maturities had a negative impact on the AT 1, albeit to a lesser extent that the increase due to the changed transitional rules. Supplementary capital (T 2) was strengthened in the second quarter of 2017 through the new issue of two subordinated bonds within the scope of the MTN program. SGD 300 million and AUD 300 million was issued. Another positive effect for subordinated capital is due to the changes in the transitional provisions. The amortization of Tier 2 capital components on the basis of the number of days that have passed had the opposite effect.

The changes impacting on CET 1 capital have an effect on all capital ratios. An increase in AT 1 capital influences the Tier 1 capital ratio and the total capital ratio, while the issue of Tier 2 capital only has a positive effect on the total capital ratio.

A decline in the partial amount at risk from trading book risks pursuant to the internal market risk model contributed in particular to the decline in the total amount at risk compared with the previous year. This essentially results from the consideration of correlation effects when netting general interest rate, equity and equity volatility risks. The positive business development in credit risk had a counteracting effect.

74. Events after the balance sheet date.
There were no events after the balance sheet date.

Additional disclosures in accordance with Section 315e HGB.

75. List of shareholdings and information on subsidiaries, associates and joint ventures.

The share of the associates and joint ventures in the aggregate assets and liabilities, as well as revenues and profits/losses for the period are presented in Note 67.

LBBW Immobilien-Holding GmbH, Stuttgart, and LBBW Service GmbH, Stuttgart, availed of the exemption according to Section 264 (3) HGB.

The following overview shows the full list of shareholdings of the LBBW Group in accordance with Section 313 (2) HGB in the consolidated financial statements and Section 285 (11) HGB in the annual financial statements of Landesbank Baden-Württemberg including the statements pursuant to Section 285 (11a) HGB as at the reporting date. The list of shareholdings shows the companies for which a letter of comfort has been issued.

Ser. no.	Name	Place of business	Share of capital	Non-prop. voting rights	Currency	Equity EUR th.	Result EUR th.
I. Companies included in the consolidated financial statements							
1. Subsidiaries							
a. Fully-consolidated subsidiaries (authority over the voting rights)							
1	ALVG Anlagenvermietung GmbH [1,6,7,22]	Stuttgart	100.00		EUR	19 00.00	0.00
2	Austria Beteiligungsgesellschaft mbH [22]	Stuttgart	66.67		EUR	35 996.17	172.70
3	Bahnhofplatz-Gesellschaft Stuttgart Aktiengesellschaft [1,6,22]	Stuttgart	98.47		EUR	4 452.44	0.00
4	Bauwerk-Stuttgart GmbH [1,22]	Stuttgart	75.00		EUR	- 590.20	- 9.31
5	Berlin Lützowstraße GmbH & Co. KG [1]	Stuttgart	100.00			n/a	n/a
6	BW-Immobilien GmbH [1,22]	Stuttgart	100.00		EUR	2 721.13	801.09
7	Centro Alemán de Industria y Comercio de México S.de R.L.de C.V. [2,22]	México, Mexico	100.00		MXN	- 14 825.21	- 2 999.13
8	CFH Beteiligungsgesellschaft mbH [1,22]	Leipzig	100.00		EUR	45 551.95	3 781.19
9	Dritte Industriehof Objekt-GmbH [1,6,22]	Stuttgart	100.00		EUR	701.91	0.00
10	Dritte LBBW US Real Estate GmbH [22]	Stuttgart	100.00		EUR	18 049.18	- 2 819.09
11	Employrion Komplementär GmbH [1,22,30]	Weil	100.00		EUR	31.48	1.11
12	Entwicklungsgesellschaft Grunewaldstraße 61 - 62 mbH & Co. KG [1,22]	Stuttgart	94.84	94.90	EUR	- 3 386.75	12.84
13	Entwicklungsgesellschaft Uhlandstraße 187 GmbH & Co. KG [1,22]	Stuttgart	94.90		EUR	- 2 192.87	9.60
14	Erste IMBW Capital & Consulting Komplementär GmbH [1,22,33]	Weil	100.00		EUR	26.56	0.14
15	Erste Industriehof Objekt-GmbH [1,6,22]	Stuttgart	100.00		EUR	474.96	0.00
16	EuroCityCenterWest GmbH & Co. KG [1,22]	Stuttgart	100.00		EUR	- 19 427.61	58.75
17	EuroCityCenterWest Verwaltungs-GmbH [1,22]	Stuttgart	94.80		EUR	36.36	0.48
18	FLANTIR PROPERTIES LIMITED [1,22]	Nicosia, Cyprus	100.00		RUB	- 5 627.51	6 304.77
19	FOM / LEG Verwaltungs GmbH [1,22]	Heidelberg	50.00		EUR	- 17.20	- 0.13
20	Fünfte Industriehof Objekt-GmbH [1,6,22]	Stuttgart	100.00		EUR	575.02	0.00
21	German Centre for Industry and Trade GmbH, Beteiligungsgesellschaft [5,22]	Stuttgart	100.00		EUR	7 720.60	0.00
22	German Centre for Industry and Trade Pte. Ltd. Singapore [1,22]	Singapore, Singapore	100.00		SGD	16 281.41	2 575.46
23	Grunewaldstraße 61 - 62 GmbH [1,22]	Stuttgart	100.00		EUR	28.30	- 0.10
24	IMBW Capital & Consulting GmbH [1,6,22]	Stuttgart	100.00		EUR	250.00	0.00
25	Immobilienvermittlung BW GmbH [22]	Stuttgart	100.00		EUR	3 262.14	762.14
26	Industriehof-Aktiengesellschaft [1,6,22]	Stuttgart	93.63		EUR	23 281.64	0.00
27	Kiesel Finance Management GmbH [1,22]	Baienfurt	90.00		EUR	37.93	2.10
28	Kommunalbau Rheinland-Pfalz GmbH [1,22]	Mainz	100.00		EUR	1 630.74	- 3 062.73
29	Landesbank Baden-Württemberg Capital Markets Plc [3,22]	London, Great Britain	100.00		EUR	974.00	- 26.00
30	LBBW Asset Management Investmentgesellschaft mbH [3,7,22]	Stuttgart	100.00		EUR	32 274.88	12 474.21
31	LBBW Immobilien Asset Management GmbH [1,6,22]	Stuttgart	100.00		EUR	1 305.03	0.00
32	LBBW Immobilien Capital Fischertor GmbH & Co. KG [1,22]	Munich	93.98	94.00	EUR	- 5 315.90	- 5.81
33	LBBW Immobilien Capital GmbH [1,22]	Stuttgart	100.00		EUR	- 2 202.71	- 4.32
34	LBBW Immobilien Development GmbH [1,4,6,22]	Stuttgart	94.90		EUR	15 783.69	0.00
35	LBBW Immobilien GmbH & Co. Beteiligung KG [1,22]	Stuttgart	100.00		EUR	31 755.68	957.55
36	LBBW Immobilien Kommunalentwicklung GmbH [1,4,6,7,22]	Stuttgart	81.62		EUR	2 016.51	0.00
37	LBBW Immobilien Luxembourg S. A. [1,22]	Luxembourg, Luxembourg	100.00		EUR	- 76 239.30	- 29.53
38	LBBW Immobilien Management Gewerbe GmbH [1,6,22]	Stuttgart	94.90		EUR	3 303.97	0.00
39	LBBW Immobilien Management GmbH [1,6,22]	Stuttgart	100.00		EUR	375 694.37	0.00
40	LBBW Immobilien M_Eins Berlin GmbH [1,22]	Stuttgart	100.00		EUR	- 331.13	- 75.61
41	LBBW Immobilien Romania S.R.L. [1,22]	Bucharest, Romania	100.00		RON	- 34 130.45	- 89.76
42	LBBW Immobilien Süd GmbH & Co. KG [1,4,22]	Munich	100.00		EUR	- 44 049.05	- 1 636.33
43	LBBW Immobilien Versicherungsvermittlung GmbH [1,6,22]	Stuttgart	100.00		EUR	25.00	0.00
44	LBBW Immobilien Westend Carree II GmbH & Co. KG [1,22]	Stuttgart	100.00		EUR	- 2 320.30	- 1 741.88
45	LBBW Immobilien Westend Carree II Komplementär GmbH [1,22]	Stuttgart	100.00		EUR	24.26	- 0.07
46	LBBW Immobilien-Holding GmbH [5,22]	Stuttgart	100.00		EUR	402 050.54	0.00
47	LBBW Leasing GmbH i.L. [22]	Stuttgart	100.00		EUR	25 088.54	0.00
48	LBBW México [2,22]	México, Mexico	100.00		MXN	3 951.81	1 616.50
49	LBBW Service GmbH [5,22]	Stuttgart	100.00		EUR	224.67	0.00
50	LBBW US Real Estate Investment LLC [23]	Wilmington, USA	100.00		USD	56 392.93	- 1 355.49

Ser. no.	Name	Place of business	Share of capital	Non-prop. voting rights	Currency	Equity EUR th.	Result EUR th.
51	LBBW Venture Capital Gesellschaft mit beschränkter Haftung [22]	Stuttgart	100.00		EUR	20 591.23	1 742.15
52	LEG Projektgesellschaft 2 GmbH & Co. KG [1,22]	Stuttgart	100.00		EUR	5 414.98	74.73
53	LEG Verwaltungsgesellschaft 2 mbH [1,22]	Stuttgart	100.00		EUR	28.56	0.32
54	LOOP GmbH [1,22]	Stuttgart	100.00		EUR	15.01	2.00
55	Löwentor Stuttgart Komplementär GmbH [1]	Stuttgart	100.00			n/a	n/a
56	Löwentor Stuttgart Projekt GmbH & Co. KG [1]	Stuttgart	70.00			n/a	n/a
57	LRP Capital GmbH [1,22]	Stuttgart	100.00		EUR	3 298.00	– 120.00
58	Lyoner Quartier GmbH & Co. KG [1,4]	Frankfurt am Main	100.00			n/a	n/a
59	MKB Mittelrheinische Bank Gesellschaft mit beschränkter Haftung [7,22]	Koblenz	100.00		EUR	51 745.70	10 817.96
60	MKB Versicherungsdienst GmbH [1,6,22]	Koblenz	100.00		EUR	27.05	0.00
61	MMV Leasing Gesellschaft mit beschränkter Haftung [1,6,7,22]	Koblenz	100.00		EUR	21 00.00	0.00
62	MMV-Mobilien Verwaltungs- und Vermietungsgesellschaft mbH [1,6,7,22]	Koblenz	100.00		EUR	26.00	0.00
63	Nagatino Property S.à.r.l. [1,22]	Luxembourg, Luxembourg	100.00		EUR	– 27 682.77	– 12.13
64	Nymphenburger Straße München GmbH & Co. KG [1,22]	Stuttgart	100.00		EUR	– 224.96	– 88.83
65	Nymphenburger Straße München Komplementär GmbH [1,22]	Stuttgart	100.00		EUR	23.36	– 0.10
66	Pasing Projekt GmbH & Co. KG [1,22]	Stuttgart	100.00		EUR	– 23 997.93	285.93
67	Projekt 20 Verwaltungs GmbH [1,22]	Munich	100.00		EUR	39.07	1.43
68	Radon Verwaltungs-GmbH [22]	Stuttgart	100.00		EUR	24 145.48	1 652.33
69	Rheinallee V GmbH & Co. KG [1,22]	Stuttgart	100.00		EUR	– 3.40	– 4.40
70	Rheinallee V Komplementär GmbH [1,22]	Stuttgart	100.00		EUR	25.06	0.06
71	Rheinpromenade Mainz GmbH & Co. KG [1,22]	Stuttgart	100.00		EUR	– 649.64	– 429.57
72	Schlossgartenbau Objekt-GmbH [1,6,22]	Stuttgart	100.00		EUR	18 560.61	0.00
73	Schlossgartenbau-Aktiengesellschaft [1,6,22]	Stuttgart	92.68		EUR	6 592.42	0.00
74	Schockenried GmbH und Co. KG [1,22]	Stuttgart	100.00		EUR	– 4 452.69	57.52
75	Schockenriedverwaltungs GmbH [1,22]	Stuttgart	100.00		EUR	27.28	0.11
76	SG Management GmbH [1,22]	Stuttgart	100.00		EUR	12 952.91	3 016.15
77	SGB - Hotel GmbH & Co. KG [1,22]	Stuttgart	100.00		EUR	– 1 470.40	123.55
78	Signaris GmbH [1,22]	Stuttgart	94.90		EUR	9 180.37	– 85.04
79	SLN Maschinen-Leasing Verwaltungs-GmbH [1,22]	Stuttgart	100.00		EUR	1 589.10	116.66
80	SLP Mobilien-Leasing Verwaltungs GmbH [1,22]	Mannheim	100.00		EUR	5 940.99	158.03
81	Süd Beteiligungen GmbH [22]	Stuttgart	100.00		EUR	176 244.99	2 942.01
82	Süd KB Unternehmensbeteiligungsgesellschaft mbH [1,22]	Stuttgart	100.00		EUR	50 270.47	– 448.12
83	SüdFactoring GmbH [3,5,7,22]	Stuttgart	100.00		EUR	70 00.00	0.00
84	Süd-Kapitalbeteiligungs-Gesellschaft mbH [1,6,22]	Stuttgart	100.00		EUR	61 181.87	0.00
85	SüdLeasing Agrar GmbH [1,22]	Mannheim	100.00		EUR	1 491.18	432.35
86	SüdLeasing GmbH [5,7,22]	Stuttgart	100.00		EUR	36 350.23	0.00
87	Turtle Portfolio GmbH & Co. KG [1,22,30]	Frankfurt am Main	100.00		EUR	– 45 362.21	– 576.20
88	Turtle 1. Verwaltungs-GmbH [1,22,30]	Frankfurt am Main	100.00		EUR	69.61	1.01
89	Uhlandstraße 187 GmbH [1,22]	Stuttgart	100.00		EUR	29.57	0.95
90	Vermietungs- und Verwaltungsgesellschaft Sendlinger Straße mbH [1,4,22]	Stuttgart	100.00		EUR	17.00	– 0.94
91	Vierte Industriehof Objekt-GmbH [1,6,22]	Stuttgart	100.00		EUR	1 176.78	0.00
92	Zweite IMBW Capital & Consulting Komplementär GmbH [1,22]	Stuttgart	100.00		EUR	21.38	– 0.42
93	Zweite Industriehof Objekt-GmbH [1,6,22]	Stuttgart	100.00		EUR	19 825.72	0.00
94	Zweite LBBW US Real Estate GmbH [22]	Stuttgart	100.00		EUR	45 037.48	– 928.32
b. Fully consolidated subsidiaries (authority over contractual agreements)							
95	Employrion Immobilien GmbH & Co. KG [1,22]	Weil	35.00	50.00	EUR	8.00	– 158.17
96	Erste IMBW Capital & Consulting Objektgesellschaft mbH & Co. KG [1,22]	Weil	40.00	50.00	EUR	– 34.14	0.00
97	FOM / LEG Generalübernehmer GmbH & Co. KG [1,22]	Heidelberg	50.00		EUR	– 8 932.16	– 27.19
98	Grundstücksgesellschaft Einkaufszentrum Kröpeliner-Tor-Center Rostock mbH & Co. KG [1,22]	Berlin	39.94	50.00	EUR	– 8 234.04	802.10
99	LBBW Unternehmensanleihen Euro Offensiv [25,30]	Stuttgart			EUR	69 555.94	4 643.93
100	PALS Funding 2 LLC [30]	Dover, USA				n/a	n/a
101	Turtle Vermögensverwaltungs-GmbH & Co. KG [1,22]	Frankfurt am Main	49.00	50.00	EUR	– 41 220.67	– 583.35
102	Weinberg Capital Designated Activity Company [22,30]	Dublin 2, Ireland			EUR	0.14	– 0.05
103	Weinberg Funding Ltd. [22,30]	St. Helier, Jersey, UK			EUR	3.60	0.00

Ser. no.	Name	Place of business	Share of capital	Non-prop. voting rights	Currency	Equity EUR th.	Result EUR th.
2. Joint ventures accounted for using the equity method							
104	ARGE ParkQuartier Berg [1,22]	Stuttgart	50.00		EUR	234.94	5.60
105	Bad Kreuznacher Entwicklungsgesellschaft mbH (BKEG) [1,22]	Bad Kreuznach	50.00		EUR	3 278.28	1 976.42
106	GIZS GmbH & Co. KG [22]	Frankfurt am Main	33.33		EUR	14 663.20	– 3 652.82
107	OVG MK6 GmbH & Co. KG [1,4,22]	Berlin	49.60	50.00	EUR	– 2 564.54	– 1 011.65
108	OVG MK6 Komplementär GmbH [1]	Berlin	50.00			n/a	n/a
109	Parcul Banatului SRL [1,22]	Bucharest, Romania	50.00		RON	– 25 332.58	– 3 019.03
110	SGB - Hotel - Verwaltung GmbH [1,22]	Stuttgart	50.00		EUR	31.20	4.01
3. Associates accounted for using the equity method							
111	Altstadt-Palais Immobilien GmbH & Co. KG [1,22]	Weil	40.00	50.00	EUR	– 253.27	– 104.02
112	BWK GmbH Unternehmensbeteiligungsgesellschaft [22]	Stuttgart	40.00		EUR	260 692.86	18 107.17
113	BWK Holding GmbH Unternehmensbeteiligungsgesellschaft [22]	Stuttgart	40.00		EUR	8 868.48	745.63
114	EGH Entwicklungsgesellschaft Heidelberg GmbH & Co. KG [1,22]	Heidelberg	33.33		EUR	4 966.16	354.72
115	Hypo Vorarlberg Bank AG [1,7,22]	Bregenz, Austria	23.97		EUR	984 819.16	98 390.03
II. Companies not included in the consolidated financial statements due to being of minor influence							
1. Subsidiaries							
a. Subsidiaries not included (authority over the voting rights)							
116	aiP Gärtnerplatz Verwaltungs GmbH [1,22]	Oberhaching	100.00		EUR	23.64	1.14
117	Baden-Württembergische Equity Gesellschaft mit beschränkter Haftung [22]	Stuttgart	100.00		EUR	949.09	511.39
118	Berlin Lützowstraße Komplementär GmbH [1,22]	Stuttgart	100.00		EUR	28.88	0.01
119	Carnotstr. 5- 7 Berlin GmbH & Co. KG [1]	Stuttgart	100.00			n/a	n/a
120	Carnotstr. 5- 7 Berlin Verwaltungs GmbH [1]	Stuttgart	100.00			n/a	n/a
121	German Centre for Industry and Trade Beijing Co., Ltd. [22]	Beijing, China	100.00		CNY	3 960.97	278.59
122	Gmeinder Lokomotivenfabrik GmbH i.I. [1,12]	Mosbach	90.00		EUR	306.00	– 641.00
123	Heurika Mobilien-Leasing GmbH [1,4,22]	Mannheim	100.00		EUR	1 048.13	– 8.96
124	Karin Mobilien-Leasing GmbH i.L. [1,22]	Mannheim	100.00		EUR	884.31	0.00
125	KB Projekt GmbH [1,22]	Frankfurt am Main	100.00		EUR	46.97	– 7.56
126	Kröpeliner-Tor-Center Rostock Verwaltungsgesellschaft mbH [1,22,30]	Berlin	100.00		EUR	25.10	1.68
127	LA electronic Holding GmbH i. L. [1,18]	Espelkamp	100.00		EUR	– 17 074.86	– 1 717.92
128	Laurus Grundstücksverwaltungsgesellschaft mbH [22]	Stuttgart	100.00		EUR	903.27	– 52.34
129	LBBW Dublin Management GmbH i. L. [22]	Stuttgart	100.00		EUR	145.91	0.00
130	LBBW Gastro Event GmbH [5,22]	Stuttgart	100.00		EUR	130.00	0.00
131	LBBW Pensionsmanagement GmbH [5,22]	Stuttgart	100.00		EUR	25.00	0.00
132	LBBW REPRESENTAÇÃO LTDA. [2,22]	Sao Paulo, Brazil	100.00		BRLBRL	171.29	20.01
133	LBBW (Schweiz) AG [22]	Zurich, Switzerland	100.00		CHF	8 809.54	– 1 464.42
134	LEG Osiris 4 GmbH [1,22]	Stuttgart	100.00		EUR	31.00	– 0.91
135	LGZ-Anlagen-Gesellschaft mit beschränkter Haftung [22]	Mannheim	100.00		EUR	3 045.19	0.00
136	LIVIDA MOLARIS Grundstücks-Vermietungsgesellschaft mbH & Co. Landesfunkhaus Erfurt KG [22]	Erfurt	99.77	24.00	EUR	– 11 183.20	– 207.71
137	LIVIDA MOLARIS Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Polizei Nordhausen KG [22]	Erfurt	100.00	15.00	EUR	– 5 209.73	614.84
138	LLC German Centre for Industry and Trade [22]	Moscow, Russia	100.00		RUB	1 951.59	– 226.98
139	LUTEA MOLARIS Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Flöha KG [22]	Berlin	100.00	15.00	EUR	499.11	5 166.69
140	MDL Mitteldeutsche Leasing GmbH i.I. [1,14]	Leipzig	100.00		EUR	– 21 344.04	– 268.81
141	MLP Leasing GmbH & Co. KG i.L. [1,22]	Mannheim	100.00		EUR	– 14.84	0.00
142	MLP Verwaltungs GmbH [1,22]	Mannheim	100.00		EUR	107.87	– 0.66
143	MLS GmbH & Co. KG i.L. [1,26]	Mannheim	100.00		EUR	45.16	8.79
144	MMV-Mittelrheinische Leasing Gesellschaft mit beschränkter Haftung [1,6,22]	Koblenz	100.00		EUR	26.43	0.00
145	Pollux Vierte Beteiligungsgesellschaft mbH [22]	Stuttgart	100.00		EUR	4 435.23	– 97.37
146	Rheinpromenade Mainz Komplementär GmbH [1,22]	Stuttgart	100.00		EUR	23.63	– 0.55
147	Sachsen V.C. GmbH & Co. KG [1,22]	Leipzig	75.19		EUR	1 304.81	– 301.24
148	Sachsen V.C. Verwaltungsgesellschaft mbH [1,22]	Leipzig	100.00		EUR	6.15	– 3.23
149	SachsenFonds International Equity Holding I GmbH [1,22]	Aschheim-Dornach	100.00		EUR	2 307.16	– 21.94
150	SachsenFonds International Equity I GmbH & Co. KG [1,22]	Leipzig	96.15		EUR	3 343.21	14.35
151	SBF Sächsische Beteiligungsfonds GmbH [1,22]	Leipzig	100.00		EUR	104.06	45.05
152	SDD Holding GmbH i.L. [1,22]	Stuttgart	100.00		EUR	– 3 352.64	– 12.70

Ser. no.	Name	Place of business	Share of capital	Non-prop. voting rights	Currency	Equity EUR th.	Result EUR th.
153	SL Bayern Verwaltungs GmbH [1,22]	Mannheim	100.00		EUR	63.78	– 8.44
154	SL Bremen Verwaltungs GmbH [1,22]	Mannheim	100.00		EUR	1 711.35	298.37
155	SL BW Verwaltungs GmbH [1,22]	Mannheim	100.00		EUR	39.71	– 4.18
156	SL Düsseldorf Verwaltungs GmbH [1,22]	Mannheim	100.00		EUR	604.14	9.70
157	SL Financial Services Corporation [1,22]	North Salem, USA	100.00		USD	2 224.24	– 749.57
158	SL Mobilien-Leasing GmbH & Co. Hafis KG [1,22,30]	Mannheim	0.00	51.00	EUR	2 005.06	– 6.24
159	SL Operating Services GmbH i.L. [1,22]	Mannheim	100.00		EUR	80.41	0.00
160	SL RheinMainSaar Verwaltungs GmbH [1,22]	Mannheim	100.00		EUR	510.21	– 0.86
161	SL Schleswig-Holstein Verwaltungs GmbH i.L. [1,22]	Mannheim	100.00		EUR	91.56	– 0.53
162	SL Ventus GmbH & Co. KG [1,22]	Mannheim	100.00		EUR	496.91	– 24.30
163	Städtische Pfandleihanstalt Stuttgart Aktiengesellschaft [22]	Stuttgart	100.00		EUR	3 895.23	316.44
164	Steelcase Leasing GmbH & Co KG i.L. [1,26]	Mannheim	100.00		EUR	147.56	4.85
165	Süd Mobilien-Leasing GmbH [1,6,22]	Stuttgart	100.00		EUR	28.28	0.00
166	Süd Verwaltung Schweiz GmbH	Zurich, Switzerland	100.00			n/a	n/a
167	SüdLeasing Finance-Holding GmbH [1,22]	Stuttgart	100.00		EUR	175.01	– 3.90
168	SüdLeasing Suisse AG i.L. [1,28]	Zurich, Switzerland	100.00		CHF	7 959.38	61.79
169	SÜDRENTING ESPANA, S.A. (in Liquidation) [1,22]	Barcelona, Spain	100.00		EUR	12 133.00	69.46
170	targens GmbH [22]	Stuttgart	100.00		EUR	4 583.48	1 289.54
171	VF Verwaltung Mittelstand GmbH [1,22]	Leipzig	100.00		EUR	39.39	1.88
172	VF Verwaltung Venture GmbH [1,22]	Stuttgart	100.00		EUR	32.07	3.72
173	Viola Grundstücksverwaltungs-GmbH & Co. Verpachtungs KG [22]	Pullach	99.41	50.00	EUR	2 161.62	199.95
174	Yankee Properties II LLC [30]	Wilmington, USA	0.00	100.00		n/a	n/a
175	Yankee Properties LLC [18]	New York, USA	100.00		USD	542.38	– 22.02
176	Zenon Mobilien-Leasing GmbH i.L. [1,22]	Mannheim	100.00		EUR	33.39	0.82
177	Zorilla Mobilien-Leasing GmbH [1,22]	Mannheim	100.00		EUR	25.39	– 10.63
178	Zweite Karl-Scharnagl-Ring Immobilien Verwaltung GmbH [1,22]	Munich	100.00		EUR	39.65	1.78
b. Subsidiaries not included (authority over contractual agreements)							
179	Georges Quay Funding I Limited i.L. [20,30]	Dublin 1, Ireland			EUR	9.63	0.00
180	Hahn SB-Warenhaus Bergheim GmbH & Co. KG [22,30]	Bergisch-Gladbach			EUR	– 2 315.48	184.21
181	Humboldt Multi Invest B SICAV-FIS Sachsen LB Depot A [15]	Luxembourg, Luxembourg	100.00		EUR	5 897.89	– 248.71
182	LBBW RS Flex [22,30]	Stuttgart			EUR	87 561.01	– 1 825.56
183	Platino S.A. [22,30]	Luxembourg, Luxembourg			EUR	– 5.06	– 65.06
184	Weinberg Capital LLC [30]	Wilmington, USA				n/a	n/a
2. Joint ventures not accounted for using the equity method							
185	addfinity testa GmbH [1,22]	Hartha	19.08		EUR	3 302.60	539.73
186	EPSa Holding GmbH [1,18]	Saalfeld	45.00		EUR	1 791.97	– 99.10
187	German Centre for Industry and Trade India Holding-GmbH [1,22]	Munich	50.00		EUR	906.41	– 499.83
188	GIZS Verwaltungs-GmbH [22]	Frankfurt am Main	33.33		EUR	10.11	– 9.59
189	LBBW Immobilien Verwaltung GmbH [1,18]	Stuttgart	50.00		EUR	53.50	4.39
190	SEALINK FUNDING DESIGNATED ACTIVITY COMPANY [18,30]	Dublin, Ireland			EUR	– 393 661.00	360 212.00
191	SHS Gesellschaft für Beteiligungen mbH & Co. Mittelstand KG [1,22]	Tübingen	75.02		EUR	3 559.81	– 450.91
3. Associates not accounted for using the equity method							
192	aiP Hirschgarten 1 Verwaltungs GmbH i. L. [1,22]	Oberhaching	45.00		EUR	30.03	– 9.76
193	aiP Isarauen Verwaltungs GmbH i. L. [1,22]	Oberhaching	45.00		EUR	30.29	7.98
194	Cäcilienpark am Neckar GbR [1,18]	Heilbronn	33.33		EUR	308.97	8.97
195	Cortex Biophysik GmbH [1,19]	Leipzig	47.70		EUR	132.49	428.18
196	Deharde GmbH [1,22]	Varel	37.50		EUR	11 066.53	1 526.38
197	Doughty Hanson & Co. Funds III Partnership No.15 [1,22]	London, Great Britain	21.74		USD	12 934.59	– 7.67
198	DUO PLAST Holding GmbH [1,22]	Lauterbach	47.43		EUR	16 772.44	2 348.62
199	EURAMCO Immobilien GmbH [1,22]	Aschheim-Dornach	49.00		EUR	58.82	6.96
200	Fabmatics Holding GmbH [1,22]	Dresden	50.00		EUR	5 330.34	942.33
201	Grundstücks-, Vermögens- und Verwaltungs- GbR 34, Wolfstor 2, Esslingen i.L. [1,18]	Stuttgart	30.39		EUR	9 348.49	405.61
202	Grundstücks-, Vermögens- und Verwaltungs- GbR 36, Stuttgart/Lein-felden-Echterdingen [1,22]	Stuttgart	28.11		EUR	30 157.32	– 113.77
203	Grundstücks-, Vermögens- und Verwaltungs- GbR 38, Stuttgart-Filderstadt [1,22]	Stuttgart	23.82		EUR	25 316.16	– 570.06
204	Grundstücks-, Vermögens- und Verwaltungs- GbR 39, Stuttgart-Fellbach i.L. [1,18]	Stuttgart	42.03		EUR	25 472.67	– 604.44
205	Grundstücks-, Vermögens- und Verwaltungs-GbR 40, Ludwigsburg »Am Schloßpark« i.L. [1,18]	Stuttgart	44.59		EUR	24 564.47	160.25
206	INULA Grundstücks-Verwaltungsgesellschaft mbH & Co. KG i.L. [8,22]	Grünwald	80.00	18.25	EUR	– 19 231.16	4 334.83
207	Janoschka AG [1,22]	Kippenheim	39.80		EUR	4 870.66	859.06

Ser. no.	Name	Place of business	Share of capital	Non-prop. voting rights	Currency	Equity EUR th.	Result EUR th.
208	Kiesel Finance GmbH & Co. KG [1,22,30]	Baienfurt	0.00	75.00	EUR	1 108.24	1 073.24
209	Kreditgarantiegemeinschaft in Baden-Württemberg Verwaltungs-GmbH [22]	Stuttgart	20.00		EUR	1 022.58	0.00
210	M Cap Finance Deutsche Mezzanine Fonds Zweite GmbH & Co. KG i. L. [1,22]	Leipzig	49.75		EUR	21 981.60	6 081.33
211	Mittelständische Beteiligungsgesellschaft Sachsen mbH [22]	Dresden	25.27		EUR	44 728.93	2 464.43
212	MOLWANKUM Vermietungsgesellschaft mbH & Co. Objekt Landkreis Hildburghausen KG [22]	Düsseldorf	94.00	49.00	EUR	–1 485.08	446.10
213	Piller Entgrattechnik GmbH [1,22]	Ditzingen	40.00		EUR	10 745.30	1 994.37
214	Ritterwand Metall-Systembau Beteiligungs GmbH [1,22]	Nufringen	49.97		EUR	9 729.38	708.53
215	Siedlungswerk GmbH Wohnungs- und Städtebau [7,22]	Stuttgart	25.00		EUR	226 972.56	16 102.76
216	SL Mobilien-Leasing GmbH & Co. ENERCON KG [1,22,30]	Mannheim	0.00	80.00	EUR	35 873.15	–5.14
217	SLB Leasing-Fonds GmbH & Co. Portos KG i.L. [1,22]	Pöcking	35.12		EUR	263.20	–21.16
218	SLN Maschinen Leasing GmbH & Co. OHG [1,22,30]	Stuttgart	0.00	75.00	EUR	–1 411.91	–512.99
219	SLP Mobilien-Leasing GmbH & Co. OHG [1,22,30]	Mannheim	0.00	75.00	EUR	347.93	–67.62
220	Stollmann Entwicklungs- und Vertriebs GmbH i.L. [1,22]	Schenefeld	34.00		EUR	1 116.86	859.81
221	1. yourTime Solutions AbwicklungsGmbH i.L. [1,14]	Potsdam	20.11		EUR	–478.00	–1 317.00
III. Equity investments within the meaning of Section 271 (1) HGB 29)							
222	ABE Clearing S.A.S., à capital variable [22]	Paris, France	1.92		EUR	20 401.40	4 799.64
223	Abingworth Bioventures III L. P. [1,22]	London, Great Britain	0.44		USD	17 680.27	–24.50
224	Accession Mezzanine Capital II L.P. [1,22]	Hamilton, Bermuda	1.91		EUR	42 243.00	–4 237.00
225	ADLATUS Robotics GmbH [1,22]	Ulm	0.75		EUR	–241.06	–321.00
226	African Export-Import Bank [22]	Cairo, Egypt	0.05		USD	1 356 833.10	137 683.23
227	AKA Ausfuhrkredit-Gesellschaft mit beschränkter Haftung [22]	Frankfurt am Main	3.29		EUR	231 752.10	22 885.00
228	ALPHA CEE II L.P. [1,22]	Grand Cayman, Cayman Islands	2.41		EUR	134 035.00	3 087.00
229	amcure GmbH [1,22]	Eggenstein-Leopoldshafen	18.26		EUR	1 531.83	–2 278.58
230	Bain Capital VIII L. P. [1,22]	Grand Cayman, Cayman Islands	0.32		USD	119 060.89	–8 998.93
231	Biametrics GmbH [1,22]	Tübingen	13.31		EUR	710.16	–821.31
232	BioM Venture Capital GmbH & Co. Fonds KG i.L. [1,18]	Martinsried	4.46		EUR	450.03	–2.57
233	BS Abwicklungs-GmbH [1,18]	Stuttgart	1.10		EUR	–791.64	–282.92
234	Bürgschaftsbank Sachsen GmbH [22]	Dresden	27.96	18.44	EUR	40 369.95	2 219.50
235	CCP Systems AG i.L. [1,17]	Stuttgart	0.96		EUR	9 182.77	–10 654.37
236	Chargepartner GmbH i.L. [1,17]	Walldorf	0.75		EUR	0.00	–493.17
237	Chicago Mercantile Exchange Holdings Inc.	Wilmington, USA	0.00			n/a	n/a
238	Computomics GmbH [1,22]	Tübingen	0.75		EUR	–485.42	–596.00
239	CorTec GmbH [1,22]	Freiburg	0.59		EUR	1 571.21	–1 302.12
240	crealytics GmbH [1,22]	Passau	9.86		EUR	4 281.40	–753.02
241	CVC European Equity Partners IV (A). L. P. [1,22]	Grand Cayman, Cayman Islands	0.29		EUR	297 663.17	27 913.50
242	Depository Trust & Clearing Corporation	New York, USA	0.00	0.01		n/a	n/a
243	Designwelt GmbH i.I. [1,13]	Munich	6.41		EUR	–16.81	–4 416.87
244	Deutscher Sparkassen Verlag Gesellschaft mit beschränkter Haftung [7,22]	Stuttgart	8.11		EUR	171 670.66	37 786.61
245	Doughty Hanson & Co. IV Partnership 2 [1,22]	London, Great Britain	4.04		EUR	74 593.46	16 778.51
246	Dr. Gubelt Immobilien Vermietungs-Gesellschaft mbH & Co. Objekt Stuttgart Gutenbergstraße KG [22]	Düsseldorf	2.62	2.55	EUR	114.62	404.98
247	Dritte SHS Technologiefonds GmbH & Co. KG [1,22]	Tübingen	4.94		EUR	23 559.43	–1 804.86
248	enOware GmbH [1,22]	Karlsruhe	0.75		EUR	–431.85	–358.00
249	Erste IFD geschlossener Immobilienfonds für Deutschland GmbH & Co. KG [1,18]	Hamburg	0.20		EUR	27 517.61	2 202.74
250	FL FINANZ-LEASING GmbH [22]	Wiesbaden	17.00		EUR	–358.57	–86.33
251	Fludicon GmbH i.L. [1,17]	Darmstadt	7.88		EUR	516.90	–2 184.41
252	GbR VÖB-ImmobilienAnalyse [31]	Bonn	25.00	20.00		n/a	n/a
253	GLB GmbH & Co. OHG [22,32]	Frankfurt am Main	30.05		EUR	6 235.54	494.04
254	GLB-Verwaltungs-GmbH [22,32]	Lennestadt	30.00		EUR	51.74	1.99
255	Grundstücks-Vermögens- und Verwaltungs- GbR Nr. 32, Leonberg/ Ditzingen i.L. [1,14]	Stuttgart	0.37		EUR	34 995.90	–951.56
256	Grundstücks-, Vermögens- und Verwaltungs- GbR 35, Sillenbucher Markt i.L. [1,18]	Stuttgart	0.02		EUR	45 833.47	408.40
257	Grundstücks-, Vermögens- und Verwaltungs- GbR 31, Esslingen/ Stuttgart i.L. [1,18]	Stuttgart	13.18		EUR	503.46	28.96
258	Grundstücks-Vermögens- und Verwaltungs-GbR Nr. 27, Stuttgart-Mitte II i.L. [1,18]	Stuttgart	0.13		EUR	8 467.53	45.06
259	Grundstücksverwaltungsgesellschaft Sonnenberg mbH & Co. Betriebs-KG i.L. [1]	Wiesbaden	5.52			n/a	n/a

Ser. no.	Name	Place of business	Share of capital	Non-prop. voting rights	Currency	Equity EUR th.	Result EUR th.
260	HANSA TREUHAND Dritter Beteiligungsfonds GmbH & Co. KG [1]	Hamburg	0.03		EUR	23 875.57	2 920.32
261	HANSA TREUHAND Zweiter Beteiligungsfonds GmbH & Co. KG i.L. [1,17]	Hamburg	0.16		EUR	32 066.52	– 6 076.52
262	Heidelberg Innovation BioScience Venture II GmbH & Co. KG i.L. [1,22]	Leimen	3.83		EUR	5 227.12	315.89
263	HGA Mitteleuropa V GmbH & Co. KG [1,18]	Hamburg	0.05		EUR	1 923.39	– 547.69
264	HSBC Trinkaus & Burkhardt AG [7,22]	Düsseldorf	18.66		EUR	1 858 015.35	154 520.13
265	Humboldt Multi Invest B S.C.A., SICAV-FIS i.L. [15,33]	Luxembourg, Luxembourg	99.99		EUR	6 928.35	– 165.43
266	Icon Brickell LLC [1]	Miami, USA	13.35			n/a	n/a
267	ImmerSight GmbH [1,22]	Ulm	0.85		EUR	– 525.39	– 246.00
268	KanAm USA XXII Limited Partnership [1,23]	Atlanta, USA	0.04		USD	36 621.49	455.43
269	Kreditgarantiegemeinschaft der Freien Berufe Baden-Württemberg Verwaltungs-GmbH [22]	Stuttgart	4.76		EUR	153.39	0.00
270	Kreditgarantiegemeinschaft der Industrie, des Verkehrsgewerbes und des Gastgewerbes Baden-Württemberg Verwaltungs-GmbH [22]	Stuttgart	15.28		EUR	1 299.87	0.00
271	Kreditgarantiegemeinschaft des Gartenbaus Baden-Württemberg Verwaltungs-GmbH [22]	Stuttgart	4.50		EUR	138.31	0.00
272	Kreditgarantiegemeinschaft des Handels Baden-Württemberg Verwaltungs-GmbH [22]	Stuttgart	9.14		EUR	1 021.91	0.00
273	Kreditgarantiegemeinschaft des Handwerks Baden-Württemberg Verwaltungs-GmbH [22]	Stuttgart	9.76		EUR	1 001.05	0.00
274	Kunststiftung Baden-Württemberg gGmbH [22]	Stuttgart	2.00	0.61	EUR	2 899.37	– 16.60
275	Maehler & Kaege AG i. I. [1,9]	Ingelheim	7.50	9.26	EUR	– 2 041.59	67.06
276	MAT Movies & Television Productions GmbH & Co. Project IV i.L. [1,22]	Grünwald	0.22		EUR	543.57	– 7.80
277	MBG Mittelständische Beteiligungsgesellschaft Baden-Württemberg Gesellschaft mit beschränkter Haftung [22]	Stuttgart	9.94		EUR	66 947.91	6 067.18
278	MFG Flughafen-Grundstücksverwaltungsgesellschaft mbH & Co. BETA KG i.L. [22]	Grünwald	7.97	7.93	EUR	80.34	– 28.70
279	Monolith Grundstücksverwaltungsgesellschaft mbH & Co. Objekt Neubau Sparkassen-Versicherung Sachsen OHG [8,22]	Mainz	10.50	2.66	EUR	– 14 671.00	2 377.76
280	NAVALIA 11 MS »PORT MENIER« GmbH & Co. KG [1]	Bramstedt	0.15			n/a	n/a
281	NESTOR Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Villingen-Schwenningen KG [8,22]	Düsseldorf	5.00		EUR	– 2 575.31	416.20
282	Neumayer Tekfor Verwaltungs GmbH i.L. [1,16]	Offenburg	8.97	0.00	EUR	26.91	– 9.38
283	Notion Systems GmbH [1,22]	Schwetzingen	0.75		EUR	1 508.81	168.65
284	Novoplant Gesellschaft mit beschränkter Haftung [1,10]	Gatersleben	18.77		EUR	– 5 574.08	1 852.89
285	otego GmbH [1]	Karlsruhe	6.25			n/a	n/a
286	OXID eSales AG [1,22]	Freiburg	19.92		EUR	27.27	13.58
287	PARAMOUNT GROUP, INC. [1,22]	Baltimore, USA	0.50		USD	4 076 208.23	– 8 287.66
288	Paramount Group Operating Partnership LP [1]	Wilmington, USA	2.46	0.00		n/a	n/a
289	PARAMOUNT GROUP REAL ESTATE FUND III, L.P. [1,22]	Wilmington, USA	12.19	11.09	USD	34 702.56	3 132.07
290	Phenex Pharmaceuticals AG [1,22]	Ludwigshafen	8.90		EUR	72 775.23	70 352.67
291	Polish Enterprise Fund V, L.P. [1,22]	New York, USA	1.67		EUR	32 512.55	– 3 646.29
292	PolyAn Gesellschaft zur Herstellung von Polymeren für spezielle Anwendungen und Analytik mbH [1,22]	Berlin	9.93		EUR	14.84	3.44
293	PressMatrix GmbH [1,22]	Berlin	14.08		EUR	– 782.46	– 221.89
294	Probiodrug AG [1,22]	Halle/Saale	2.85		EUR	16 847.14	– 14 512.44
295	Rau Metall GmbH & Co. KG i I. [1,13]	Geislingen / Steige	5.00	0.00	EUR	– 12 457.02	510.67
296	REAL Immobilien GmbH [1,17]	Hanau	9.00		EUR	– 30 637.14	– 9 117.47
297	Reha-Klinik Aukammtal GmbH & Co. Betriebs-KG i.L. [1]	Wiesbaden	5.54			n/a	n/a
298	RSU Rating Service Unit GmbH & Co. KG [22]	Munich	18.80		EUR	14 946.09	1 825.23
299	RW Holding AG i.L. [24]	Düsseldorf	1.36		EUR	391 525.73	– 34 448.23
300	RWSO Grundstücksgesellschaft TBS der Württembergischen Sparkassenorganisation GbR [22]	Stuttgart	10.00	8.81	EUR	6 421.00	49.55
301	S CountryDesk GmbH [22]	Cologne	2.50		EUR	404.81	32.35
302	Schiffahrts-Gesellschaft »HS ALCINA«/»HS ONORE«/»HS OCEANO« mbH & Co. KG [1,22]	Hamburg	0.04		EUR	20 838.43	2 503.58
303	Schiffahrts-Gesellschaft »HS MEDEA« mbH & Co. KG [1,22]	Hamburg	0.16		EUR	15 202.91	1 249.09
304	SE.M.LABS GmbH [1,22]	Stuttgart	0.75		EUR	– 143.25	– 221.00
305	Sensitu GmbH [1]	Bendorf	14.29			n/a	n/a
306	SI-BW Beteiligungsgesellschaft mbH & Co KG [22]	Stuttgart	4.00	3.96	EUR	43 750.76	1 204.06
307	SimuForm GmbH i.L. [1,14]	Herten	6.84		EUR	235.00	– 300.00
308	Society for Worldwide Interbank Financial Telecommunication (S.W.I.F.T.) [22]	La Hulpe, Belgium	0.16		EUR	314 177.57	23 406.11
309	stimOS GmbH [1,22]	Konstanz	0.75		EUR	– 12.96	– 29.00
310	Synapticon GmbH [1,22]	Gruibingen	0.85		EUR	– 2 163.38	– 1 156.00

Ser. no.	Name	Place of business	Share of capital	Non-prop. voting rights	Currency	Equity EUR th.	Result EUR th.
311	Technologiegründerfonds Sachsen Plus GmbH & Co. KG [1,22]	Leipzig	8.47	8.48	EUR	2 695.33	– 1 474.65
312	Technologiegründerfonds Sachsen Seed GmbH & Co. KG [1,22]	Leipzig	3.33	3.34	EUR	4 260.10	– 153.00
313	Technologiegründerfonds Sachsen Start up GmbH & Co. KG [1,22]	Leipzig	10.81	10.83	EUR	18 229.01	712.03
314	TETRAGENEX PHARMACEUTICALS, INC. [1,11]	Park Ridge, USA	0.71		EUR	2 201.00	4 580.00
315	tocario GmbH [1,22]	Stuttgart	0.75		EUR	– 589.04	– 124.00
316	TuP 8 GmbH & Co. KG [1]	Berlin	0.43			n/a	n/a
317	TVM IV GmbH & Co. KG [1,22]	Munich	1.67		EUR	15 359.98	2 736.97
318	VCM Golding Mezzanine GmbH & Co. KG [1,18]	Cologne	3.89		EUR	12 849.63	6 319.20
319	Verband der kommunalen RWE-Aktionäre Gesellschaft mit beschränkter Haftung [27]	Essen	0.40		EUR	297.69	– 222.35
320	Visa Inc. [21]	San Francisco, USA	0.00		USD	27 457 556.42	4 998 122.89
321	VRP Venture Capital Rheinland-Pfalz GmbH & Co. KG i.L. [1,22]	Mainz	16.65		EUR	1 918.37	2 338.51
322	VRP Venture Capital Rheinland-Pfalz Nr. 2 GmbH & Co. KG [1,22]	Mainz	16.65		EUR	1 269.89	3 344.17
323	Wachstumsfonds Mittelstand Sachsen GmbH & Co. KG 1,[22,34]	Leipzig	27.34	27.55	EUR	18 205.85	782.25
324	Wachstumsfonds Mittelstand Sachsen Plus GmbH & Co. KG [1,22]	Leipzig	13.68	13.72	EUR	6 728.13	– 1 107.98
325	Wirtschaftsförderung Region Stuttgart GmbH [2,22]	Stuttgart	16.06		EUR	828.29	– 2 470.85
326	5Analytics GmbH [1,35]	Köngen	0.75		EUR	2.32	– 32.42

1 Held indirectly.
2 Including shares held indirectly.
3 A letter of comfort exists.
4 A letter of comfort exists on the part of a Group subsidiary.
5 A profit transfer and/or control agreement has been concluded with the company.
6 A profit transfer and/or control agreement has been concluded with another company.
7 Equity investment in a large corporation (Kapitalgesellschaft) with a share of at least 5 % in voting rights (Section 340a (4) no. 2 HGB).
8 Is a structured entity in accordance with IFRS 12 at the same time.
9 Data available only as at 31 December 2004.
10 Data available only as at 31 December 2006.
11 Data available only as at 31 December 2007.
12 Data available only as at 31 December 2011.
13 Data available only as at 31 December 2012.
14 Data available only as at 31 December 2013.
15 Data available only as at 31 July 2014.
16 Data available only as at 13 October 2014.
17 Data available only as at 31 December 2014.
18 Data available only as at 31 December 2015.
19 Data available only as at 31 March 2016.
20 Data available only as at 30 April 2016.
21 Data available only as at 30 September 2016.
22 Data available only as at 31 December 2016.
23 Data available only as at 31 December 2016 in accordance with IFRS.
24 Data available only as at 21 February 2017.
25 Data available only as at 28 February 2017.
26 Data available only as at 31 March 2017.
27 Data available only as at 30 June 2017.
28 Data available only as at 27 October 2017. Final balance sheet.
29 Financial instruments pursuant to IFRS.
30 No shareholdings within the meaning of Section 285 no. 11 HGB.
31 Classification as equity investment, as the company does not generate any commercial activities.
32 Classification as equity investment, as no relevant decisions are made any longer and liquidation is expected.
33 Classification as equity investment, in liquidation: no relevant decisions are made any longer.
34 Classification as equity investment; because of contractual agreements, only 14.29 % of the voting right is exercisable in the event of material decisions.
35 Data available only as at 31 December 2016. Abridged financial year from 22 January 2016 to 31 December 2016.

76. Employees.

On average, the number of employees is as follows:

	2017			2016		
	Male	Female	Total	Male	Female	Total
Full-time	4 641	2 861	7 503	4 957	3 128	8 085
Part-time	336	2 630	2 967	251	2 612	2 864
Trainees[1]	192	111	303	240	178	417
Total	**5 169**	**5 603**	**10 772**	**5 448**	**5 918**	**11 366**

1 Including students at universities of cooperative education.

77. Executive and supervisory bodies and positions held.

Members of the Board of Managing Directors and supervisory bodies.

Board of Managing Directors.

Chairman.

RAINER NESKE

Deputy Chairman.

MICHAEL HORN

Members.

KARL MANFRED LOCHNER

DR. CHRISTIAN RICKEN

THORSTEN SCHÖNENBERGER
as of 1 August 2017

ALEXANDER FREIHERR VON USLAR-GLEICHEN
until 31 December 2017

VOLKER WIRTH

Supervisory Board

Chairman.

CHRISTIAN BRAND
Former chairman of the Board of Management of L-Bank

Deputy Chairperson.

EDITH SITZMANN MDL
Minister of Finance and Economics of the State of Baden-Wurttemberg

Members.

CARSTEN CLAUS
until 30 September 2017
Chairman of the Board of Managing Directors of Kreissparkasse Böblingen

WOLFGANG DIETZ
Lord Mayor of the town of Weil am Rhein

UTA-MICAELA DÜRIG
Managing Director of Robert Bosch Stiftung GmbH

WALTER FRÖSCHLE
Employee Representative of Landesbank Baden-Württemberg

HELMUT HIMMELSBACH
Member of the Supervisory Board of WGV-Versicherung AG

CHRISTIAN HIRSCH
Employee Representative of Landesbank Baden-Wurttemberg

BETTINA KIES-HARTMANN
Employee Representative of Landesbank Baden-Württemberg

FRITZ KUHN
Lord Mayor of the State Capital Stuttgart

SABINE LEHMANN
Employee Representative of Landesbank Baden-Württemberg

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

DR. FRITZ OESTERLE
Attorney at law

MARTIN PETERS
Managing Partner of the Eberspächer group of companies

CHRISTIAN ROGG
Employee Representative of Landesbank Baden-Württemberg

CLAUS SCHMIEDEL
Member of Ludwigsburg District Council

B. JUTTA SCHNEIDER
Member of the Board of Managing Directors of Global Consulting Delivery SAP Deutschland SE & Co. KG

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

DR. JUTTA STUIBLE-TREDER
Managing Partner of EversheimStuible Treuberater GmbH

DR. BRIGITTE THAMM
Employee Representative of Landesbank Baden-Württemberg

BURKHARD WITTMACHER
as of 1 October 2017
Chairman of the Board of Managing Directors of Kreissparkasse Esslingen-Nürtingen

NORBERT ZIPF
Employee Representative of Landesbank Baden-Württemberg

The remuneration of and defined benefit pension commitments to members of the committees are broken down as follows:

	Board of Managing Directors		Supervisory Board	
EUR million	2017	2016	2017	2016
Remuneration				
Salaries, remuneration and short-term benefits[1]	6.6	7.8	1.0	1.0
Post-employment benefits (total obligations from defined benefit obligations)	20.5	25.5	0.0	0.0
Other long-term benefits	0.0	0.0	0.0	0.0
Post-employment benefits	0.0	0.0	0.0	0.0
Remuneration for former members and their dependents				
Salaries, remuneration and short-term benefits	11.2	11.2	0.0	0.0
Post-employment benefits (total obligations from defined benefit obligations)	143.6	153.8	0.0	0.0
Other long-term benefits	0.0	0.0	0.0	0.0
Post-employment benefits	0.0	0.0	0.0	0.0

[1] Including attendance allowance.

As at 31 December 2017, loans granted to and contingent liabilities assumed in favor of members of the Board of Managing Directors and members of the Supervisory Board came to EUR 3 million (previous year: EUR 3 million), of which EUR 1 million (previous year: EUR 2 million) were accounted for by members of the Board of Managing Directors and EUR 2 million (previous year: EUR 1 million) by members of the Supervisory Board.

The loans were extended with an interest rate of between 1.32% and 5.13% and have a remaining term extending from a few months to 37 years. The banking transaction were concluded with all of the cited persons at arm's length terms and collateral requirements.

As in the previous year, no advances were made in the 2017 financial year.

Positions held.

Offices held by legal representatives of LBBW and members of the AidA[1] Board of Managing Directors on statutory supervisory boards and similar supervisory bodies of large companies and banks, as well as offices held by employees of LBBW on statutory supervisory boards of large companies and banks are listed below:

Company	Position	Incumbent
BS PAYONE GmbH, Frankfurt (formerly: B+S Card Service GmbH, Frankfurt a.M.)	Supervisory Board	Helmut Dohmen
Boerse Stuttgart GmbH, Stuttgart	Deputy Chairman of the Supervisory Board	Dr. Christian Ricken (as of 22 May 2017)
	Supervisory Board	Dr. Christian Ricken (as of 3 May 2017 until 21 May 2017)
Bürgschaftsbank Sachsen GmbH, Dresden	Member of the Board of Directors	Oliver Fern
	Deputy Member of the Board of Directors	Peter Kröger
Deutscher Sparkassenverlag GmbH, Stuttgart	Supervisory Board	Michael Horn (as of 1 February 2017)
Düker GmbH, Karlstadt	Chairman of the Supervisory Board	Dr. Georg Hengstberger (until 30 September 2017)
Euwax AG, Stuttgart	Deputy Chairman of the Supervisory Board	Dr. Christian Ricken (as of 22 May 2017)
Hypo Vorarlberg Bank AG, Bregenz (formerly: Vorarlberger Landes- und Hypothekenbank AG, Bregenz)	Supervisory Board	Michael Horn
Grieshaber Logistik GmbH, Weingarten	Supervisory Board	Michael Horn
LBBW Asset Management Investmentgesellschaft mbH, Stuttgart	Chairman of the Supervisory Board	Dr. Christian Ricken (as of 8 March 2017)
	Deputy Chairman of the Supervisory Board	Rainer Neske (until 30 September 2017)
	Supervisory Board	Frank Hagenstein (as of 1 October 2017)
	Supervisory Board	Michael Nagel
	Supervisory Board	Dr. Christian Ricken (as of 1 January 2017 until 7 March 2017)
LBBW (Schweiz) AG, Zürich	Chairman of Board of Directors:	Michael Horn
MKB Mittelrheinische Bank GmbH, Koblenz	Chairman of the Supervisory Board	Karl Manfred Lochner
	Deputy Chairman of the Supervisory Board	Volker Wirth
	Supervisory Board	Peter Hähner
MMV Leasing GmbH, Koblenz	Chairman of the Advisory Board	Karl Manfred Lochner
	Deputy Chairman of the Advisory Board	Volker Wirth
	Advisory Board	Peter Hähner
Progress-Werk Oberkirch AG, Oberkirch	Supervisory Board	Dr. Georg Hengstberger (until 30 September 2017)
Siedlungswerk GmbH Wohnungs- und Städtebau, Stuttgart	Deputy Chairman of the Supervisory Board	Michael Horn
	Supervisory Board	Thorsten Schönenberger
	Supervisory Board	Thomas Christian Schulz
Mainzer Stadtwerke AG, Mainz	Supervisory Board	Hannsgeorg Schönig
SüdFactoring GmbH, Stuttgart	Chairman of the Supervisory Board	Karl Manfred Lochner
	Deputy Chairman of the Supervisory Board	Volker Wirth
	Supervisory Board	Norwin Graf Leutrum von Ertingen
SüdLeasing GmbH, Stuttgart	Chairman of the Supervisory Board	Karl Manfred Lochner
	Deputy Chairman of the Supervisory Board	Volker Wirth
	Supervisory Board	Norwin Graf Leutrum von Ertingen
VPV Lebensversicherungs-Aktiengesellschaft, Stuttgart	Supervisory Board	Claudia Diem

1 Institution within the institution.

Further information.

Responsibility statement.

To the best of our knowledge, and in accordance with the applicable financial reporting framework, the consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the Group, and the combined 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.

Stuttgart, Karlsruhe, Mannheim and Mainz, 5 March 2018

Board of Managing Directors

RAINER NESKE
Chairman

MICHAEL HORN
Deputy Chairman

KARL MANFRED LOCHNER

DR. CHRISTIAN RICKEN

THORSTEN SCHÖNENBERGER

VOLKER WIRTH

Independent Auditor's report.

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

Report on the audit of the consolidated financial statements and the combined management report

Audit opinion

We have audited the consolidated financial statements prepared by Landesbank Baden-Württemberg, Stuttgart, Karlsruhe, Mannheim and Mainz, and its subsidiaries (the Group) comprising the income statement as at 31 December 2017, total comprehensive income, statement of changes in equity and cash flow statement for the financial year from 1 January 2017 to 31 December 2017 as well as the Notes, including a summary of significant accounting methods. Furthermore, we audited the combined management report of Landesbank Baden-Württemberg, Stuttgart, Karlsruhe, Mannheim and Mainz for the financial year from 1 January 2017 to 31 December 2017. In accordance with German statutory regulations, we have not audited the contents of the non-financial statement included in the combined management report.

According to our assessment on the basis of the knowledge acquired in the course of the audit,

- the accompanying consolidated financial statements comply in all material respects with the IFRS applicable within the EU and the additional requirements of German commercial law pursuant to Section 315e (1) of the German Commercial Code (HGB) and give a true and fair view of the net assets and financial position of the Group as at 31 December 2017 and its results of operations for the financial year from 1 January 2017 to 31 December 2017 in accordance with these requirements and
- the accompanying combined management report accurately represents the Group's position. The combined management report is consistent in all material respects with the consolidated financial statements and in accordance with German statutory provisions, and accurately presents the opportunities and risks of future development. Our audit opinion on the combined management report does not refer to the contents of the above-mentioned non-financial statement.

In accordance with Section 322 (3) sentence 1 HGB we state that our audit has not led to any objections to the correctness of the consolidated financial statements and the combined management report.

Basis for our audit opinion

We conducted our audit of the consolidated financial statements and the combined management report in accordance with Section 317 HGB and the EU Audit Regulation (No. 537/2014) as well as the German generally accepted standards for the audit of financial statements promulgated by the German Institute of Public Auditors (IDW). Our responsibility in accordance with these provisions and principles is described in more detail in the section »Responsibility of the statutory auditor for the audit of the consolidated financial statements and the combined management report« of our auditor's report. We are independent from the Group companies in accordance with the provisions of European law and German commercial and professional law, and we have also met our other German professional obligations in accordance with these requirements. We furthermore state in accordance with Article 10 (2) (f) of the EU Audit Regulation that we have not provided any prohibited non-audit services as defined in Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our audit opinion on the consolidated financial statements and the combined management report.

Key audit matters in the audit of the consolidated financial statements

Key audit matters are such audit matters that, after due consideration, are the most significant for the audit of the consolidated financial statements for the financial year from 1 January to 31 December 2017. These matters were taken into account in our audit of the consolidated financial statements as a whole and in forming our audit opinion thereof. We are not issuing a separate audit opinion on these matters.

Calculation of the fair values of financial instruments based on valuation models (Levels II and III)

With regard to the accounting and valuation methods applied by Landesbank Baden-Württemberg, please refer to Notes 6, 54 and 55.

RISK TO THE FINANCIAL STATEMENTS

Financial assets and financial liabilities measured at fair value in accordance with IFRS 13 under trading assets and trading liabilities as well as designated at fair value include assets (EUR 26 431 million) and liabilities (EUR 23 282 million) for which no market prices are observable. Their fair values must therefore be determined based on generally accepted valuation methods. The choice of valuation models and their parameterization are, in part, discretionary. It was therefore important for our audit that the calculation of the fair values be based on appropriate valuation models and parameters, and that trading gains/losses and other income be calculated in accordance with the accounting principles.

APPROACH ADOPTED IN THE AUDIT

Based on our risk assessment and the assessment of the risk of error, our audit opinion rested on substantive audit procedures. Accordingly, we performed the following audit procedures, amongst others:

As a first step, we obtained an insight into the development of the financial instruments measured at fair value, the associated risks and the process and structure of the internal control system with regard to the valuation of the financial instruments in the trading portfolio.

In order to assess the appropriate fair value measurement of these financial instruments, for which no market prices can be observed, we performed a revaluation in a two-stage process involving internal KPMG valuation specialists, and compared the results with the values determined by the Bank. As part of this process, all financial instruments were included in a standardized revaluation procedure.

If deviations outside a defined range were identified or if a revaluation using the standardized method was not possible due to a lack of market data, we satisfied ourselves of the appropriateness of the valuation models. The specific item testing was designed to ensure that all valuation models used for each type of financial instrument were taken into account in the validation process. As part of the revaluation, the parameters used in the valuation models were derived from internal and external sources.

OUR CONCLUSIONS

According to our revaluation, the fair values determined by the Bank on the basis of its selection and parameterization of the valuation models for the financial instruments for which no market prices were observable are within appropriate ranges.

Calculation of specific loan loss provision for loans and advances to customers in the case of significant loans

With regard to the accounting and valuation methods applied by Landesbank Baden-Württemberg, please refer to Notes 9, 34 and 35.

RISK TO THE FINANCIAL STATEMENTS

As at 31 December 2017, loans and advances to customers amounted to EUR 108 332 million. The specific loan loss provision and portfolio loan loss provision (impaired) for loans and advances to customers came to EUR 589 million as at 31 December 2017. The majority of the specific loan loss provision and portfolio loan loss provision (impaired) to take into account acute default risks relate to specific loan loss provision for significant loans.

In accordance with IAS 39.58, it must be determined at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets has suffered an impairment loss. The determination of specific loan loss provision for loans and advances to customers in the case of significant loans is discretionary. It requires assumptions about the contractual cash flows still expected and/or about the amount of the expected cash flows from the realization of the loan collateral provided. The assumptions are made depending on the selected restructuring and liquidation strategy.

It was therefore important for our audit that necessary specific loan loss provision are recognized in a timely manner, that appropriate criteria are applied to identify objective indications of impairment in accordance with IAS 39.59 and that identification of the exposures is ensured in procedural terms. In addition, it was important for our audit that, when determining the specific loan loss provision, appropriate assumptions were made regarding the amount of the contractual cash flows still expected and/or the amount of the expected cash flows from the realization of loan collateral provided. Incorrect assumptions about the amount of expected cash flows and/or the realization of loan collateral provided mean that counterparty risks are not taken adequately into account and hence receivables are not accurately valued.

APPROACH ADOPTED IN THE AUDIT

Based on our risk assessment and the assessment of the risk of error, we derived our audit opinion from both control-based audit procedures and substantive audit procedures. Accordingly, we performed the following audit procedures, amongst others:

As a first step, we obtained a comprehensive insight into the development of loans and advances to customers, the associated risks and the internal control system with regard to the management, monitoring and valuation of loans and advances to customers for significant loans.

To assess the appropriateness of the internal control system with regard to the identification, management, monitoring and evaluation of loans and advances to customers, we have audited the relevant organizational guidelines and conducted surveys. Moreover, we satisfied ourselves of the appropriateness, implementation and effectiveness of the relevant controls that the Bank has set up to identify exposures with objective indications of impairment and to comply with the system for determining specific loan loss provision. With regard to the IT systems used, we examined the operating effectiveness of the relevant IT application controls with the involvement of our IT specialists.

We examined the recoverability of loans and advances to customers on the basis of a deliberate selection of individual exposures based on materiality and risk aspects. First of all, we satisfied ourselves that the existence of objective indications of impairment was duly identified. In the case of impaired exposures, we subsequently assessed whether the underlying restructuring or liquidation strategy is plausible. On this basis, we examined in particular the assumptions regarding the expected contractual cash flows and/or the expected cash flows from the realization of the loan collateral provided, and assessed whether the assumptions used in the past were correct. If loan collateral was provided for an exposure which is taken into account in the valuation, we assessed the legal validity and the fair value of this collateral. In this context, we used, where applicable, independent expert valuations as a basis for our opinion and assessed, on the basis of publicly available information, whether their assumptions were derived from suitable internal and external sources in an appropriate manner. To this end, we used information such as market studies, market prices and yield analyses. We also involved our real estate valuation specialists for selected collateral real estate. Finally, we verified whether the required specific loan loss provision was accurately calculated.

In addition, we examined a random sample of individual commitments that had not been included in our specific item testing and checked whether the criteria for identifying exposures requiring specific loan loss provision were applied appropriately and, if necessary, led to the recognition of a specific loan loss provision.

OUR CONCLUSIONS

The criteria for identifying exposures requiring specific loan loss provision and assumptions regarding the amount of contractual cash flows still expected and/or the amount of cash flows expected from the realization of the loan collateral provided were selected appropriately and used in accordance with the accounting principles applicable for the measurement of specific loan loss provision.

Introduction of a new core banking system at Landesbank Baden-Württemberg

RISK TO THE FINANCIAL STATEMENTS

Landesbank Baden-Württemberg launched a new core banking system in April 2017, in which the lending business and deposit banking as well as customer and collateral data are managed. In addition, a new data transfer process was implemented in to the general ledger. A significant proportion of the migrated transactions are reported, in accordance with IFRS requirements, under advances to customers and deposits from customers as well as contingent liabilities. For our audit it was therefore important to ensure that all accounting-relevant data was fully migrated to the new core banking system, and that the migration to the general ledger using the new process was complete and accurate.

APPROACH ADOPTED IN THE AUDIT

Based on our risk assessment and the assessment of the risk of error, we have based our audit opinion on control-based audit procedures as well as on substantive audit procedures, in which we involved our IT specialists. Accordingly, we performed the following audit procedures, amongst others:

As a first step, we have audited project documents and held interviews to gain an overview of the accounting-relevant functional and IT-related concepts regarding the replacement of the old core banking system. Moreover, we inspected the significant accounting-relevant GAP concepts, interface concepts and authorization concept and assessed these.

As a second step, we mapped the migration process based on interviews and assessed it. We also critically have audited the Bank's migration concept with regard to the adequacy of the measures defined here by the Bank to ensure full and accurate migration of data to the new core banking system. With regard to the actual migration, we have audited the documentation of the Bank's control measures and checked whether identified differences were corrected.

We then have audited the structure of the (Group) accounting process and assessed its appropriateness by inspecting work instructions and interviewing the responsible employees. In particular, we included in our audit the adjusted elements of the data transfer process for accounting-relevant data into the general ledger. With regard to the IT systems used, we examined the effectiveness of the accounting-relevant IT application controls. In addition, we have audited a specific item testing of transactions to assess whether the transactions concerned are fully and accurately transferred to the general ledger in the course of day-to-day business operations. We also examined a random sample of transactions that were not included in our specific item testing to assess their complete and accurate migration.

OUR CONCLUSIONS

The measures put in place by the Bank were appropriate for the implementation of the complete migration of accounting-relevant data to the core banking system and for ensuring the complete and accurate migration of accounting-relevant data using the adjusted transfer process to the general ledger as at 31 December 2017.

Other information

The legal representatives are responsible for other information. Other information comprises:

- the non-financial statement and
- the other parts of the annual report, with the exception of the audited consolidated financial statements and combined management report as well as our auditor's report.

Our audit opinion on the consolidated financial statements and the combined management report does not include other information. We therefore do not offer an audit opinion nor any other form of audit conclusion regarding this.

In connection with our audit, it is our responsibility to read the other information and to assess whether the other information is free of

- material inconsistencies with the consolidated financial statements, the combined management report or our knowledge gained during the audit, or
- otherwise appears to be materially incorrect.

Responsibility of the legal representatives and the Supervisory Board for the consolidated financial statements and the combined management report

The legal representatives are responsible for the preparation of the consolidated financial statements in accordance, in all material respects, with the IFRS applicable within the EU and the additional requirements of German law pursuant to Section 315e (1) HGB and for the presentation of a true and fair view of the net assets, financial position and results of operations of the Group in the consolidated financial statements in accordance with these requirements. The legal representatives are also responsible for internal controls they have identified as necessary to allow the preparation of consolidated financial statements which are free from material misstatement, whether intentional or not.

In preparing the consolidated financial statements, the legal representatives are responsible for assessing the Group's ability to continue as a going concern. They are also responsible for disclosing, where relevant, matters relating to the going-concern assumption for the Group. In addition, they have responsibility for accounting on the basis of the going concern principle, unless there is the intention to liquidate the Group or to discontinue operations or there is no realistic alternative.

The legal representatives are also responsible for the preparation of the combined management report, which as a whole provides an accurate picture of the Group's position, is consistent in all material respects with the consolidated financial statements, complies with German law and adequately depicts the opportunities and risks presented in the future performance. Furthermore, the legal representatives are responsible for the precautions and measures (systems) which they have deemed necessary to enable the preparation of a combined management report in accordance with German statutory requirements and to provide sufficient suitable evidence for the statements in the combined management report.

The Supervisory Board is responsible for monitoring the Group's accounting process for the preparation of the consolidated financial statements and the combined management report.

Responsibility of the statutory auditor for the audit of the consolidated financial statements and the combined management report

Our objective is to obtain reasonable assurance as to whether the consolidated financial statements as a whole are free from material misstatements, whether intentional or not, and whether the combined management report as a whole provides an accurate picture of the Group's position and, in all material respects, is in accordance with the consolidated financial statements and the findings of our audit, the IFRS applicable within the EU, and the additional requirements of Section 315e (1) HGB and accurately depicts the opportunities and risks presented by the future performance, and to issue an audit report that includes our audit opinion on the consolidated financial statements and the combined management report.

Reasonable assurance represents a high degree of certainty, but no guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation as well as the generally accepted standards for the audit of financial statements promulgated by the German Institute of Public Auditors (IDW) will always reveal a material misstatement. Misstatements may result from infringements or inaccuracies and are considered material if it could reasonably be expected that they will, individually or collectively, influence the economic decisions of addressees made on the basis of these consolidated financial statements and the combined management report.

During our audit we exercise professional judgement and due skepticism. Moreover,

- we identify and assess the risks of material misstatements, whether intentional or not, in the consolidated financial statements and the combined management report, plan and perform audit procedures in response to these risks, and obtain audit evidence which is sufficient and appropriate to form the basis for our audit opinion. The risk that material misrepresentations are not detected is higher in the case of violations than in the case of inaccuracies, since violations may involve fraudulent interaction, forgery, intentional incompleteness, misleading representations or the repeal of internal controls.
- we gain an understanding of the internal control system relevant to the audit of the consolidated financial statements and the arrangements and measures relevant to the audit of the combined management report that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.
- we express an opinion on the appropriateness of the accounting policies used by the legal representatives and the reasonableness of the estimated amounts and related information presented by the legal representatives.
- we draw conclusions about the appropriateness of the going concern principle applied by the legal representatives and assess, based on the audit evidence obtained, whether there is material uncertainty in connection with events or circumstances that could raise significant doubts about the Group's ability to continue as a going concern. If we come to the conclusion that there is material uncertainty, we are obliged to draw attention to the relevant information in the consolidated financial statements and the combined management report in our audit report or, if this information is inadequate, to modify our audit opinion. We draw our conclusions based on audit evidence obtained by the date of our audit opinion. However, future events or circumstances may prevent the Group from continuing its business activities in the future.
- we express an opinion on the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and assess whether the consolidated financial statements present the underlying transactions and events such that the consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with the IFRS applicable within the EU and the additional requirements of German law in accordance with Section 315e (1) HGB.
- we obtain sufficient suitable audit evidence for the accounting information of the companies or business activities within the Group to enable us to express an opinion on the consolidated financial statements and the combined management report. We are responsible for guiding the audit of the consolidated financial statements, its supervision and execution. We have sole responsibility for our audit opinions.
- we assess the consistency of the combined management report with the consolidated financial statements, its compliance with the law and the picture it portrays of the Group's position.
- we conduct audit procedures on the forward-looking statements presented by the legal representatives in the combined management report. Based on sufficient, appropriate audit evidence, we retrace in particular the significant assumptions underlying the forward-looking statements made by the legal representatives and assess the appropriate derivation of the forward-looking statements from these assumptions. We do not issue a separate audit

opinion on the forward-looking statements and the underlying assumptions. There is significant unavoidable risk that future events could differ materially from the forward-looking statements.

We discuss with those responsible for governance issues such as the planned scope and timing of the audit and significant audit findings, including any deficiencies in the internal control system that we identify during our audit.

We make a statement to those responsible for governance that we have complied with the relevant independence requirements and discuss with them all relationships and other matters that can reasonably be expected to affect our independence, and the safeguarding measures taken in this respect.

From the matters that we discussed with those responsible for governance, we determine those matters that were most significant in the audit of the consolidated financial statements for the current reporting period and are therefore considered key audit matters. We describe these matters in the auditor's report, unless laws or other statutory provisions prohibit a public disclosure of such facts.

Other statutory and regulatory requirements

Other disclosures in accordance with Article 10 EU of the Audit Regulation

We were appointed statutory auditors of the consolidated financial statements by the annual general meeting on 31 May 2017. We received our mandate from the Audit Committee on 19 July 2017. We have been in continuous practice as statutory auditors of the consolidated financial statements of Landesbank Baden-Württemberg, Stuttgart, Karlsruhe, Mannheim and Mainz since the 2010 financial year.

We state that the audit opinions contained in this audit report are consistent with the additional report to the Supervisory Board in accordance with Article 11 of the EU Audit Regulation (audit report).

Responsible statutory auditor

The statutory auditor responsible for the audit is Carsten Eisele.

Stuttgart, 13 March 2018

KPMG AG
Wirtschaftsprüfungsgesellschaft

signed Pfeiffer	signed Eisele
Statutory auditor	Statutory auditor

Limited Assurance Report of the Independent Auditor regarding the Combined Non-financial statement[1]

To the Supervisory Board of Landesbank Baden-Württemberg, Stuttgart, Karlsruhe, Mannheim and Mainz

We have performed a limited assurance engagement on the Combined Non-financial statement of Landesbank Baden-Württemberg und the LBBW Group as well as the by reference qualified part »Structure and business activities« (hereinafter the »Statement«), according to Sections 315b, 315c in conjunction with 289b to 289e German Commercial Code (HGB) of Landesbank Baden-Württemberg.

Management's Responsibility

The legal representatives of LBBW are responsible for the preparation of the Statement in accordance with Sections 315b, 315c in conjunction with 289b to 289e HGB.

This responsibility of the legal representatives includes the selection and application of appropriate methods to prepare the Statement and the use of assumptions and estimates for individual disclosures which are reasonable under the given circumstances. Furthermore, the responsibility includes designing, implementing and maintaining systems and processes relevant for the preparation of the Statement in a way that is free of – intended or unintended – material misstatements.

Independence and Quality Assurance on the Part of the Auditing Firm

We are independent from the Company in accordance with the requirements of independence and quality assurance set out in legal provisions and professional pronouncements and have fulfilled our additional professional obligations in accordance with these requirements.

Our audit firm applies the legal provisions and professional pronouncements for quality assur-ance, in particular the Professional Code for German Public Auditors and Chartered Account-ants (in Germany) and the quality assurance standard of the German Institute of Public Audi-tors (Institut der Wirtschaftsprüfer, IDW) regarding quality assurance requirements in audit practice (IDW QS 1).

1 Our engagement applied to the German version of the Statement 2017. This text is a translation of the Independent Assurance Report issued in German, whereas the German text is authoritative.

Practitioner's Responsibility

Our responsibility is to express a conclusion based on our work performed on the Statement within a limited assurance engagement.

We conducted our work in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised): »Assurance engagements other than Audits or Reviews of Historical Financial Information«, published by IAASB. This standard requires that we plan and perform the assurance engagement to obtain limited assurance whether the any matters have come to our attention that cause us to believe that the Statement has not been prepared in all material respects in accordance with Section 315b and 315c in conjunction with 289b to 289e HGB. We do not, however, that we issue a separate conclusion for each disclosure.

In a limited assurance engagement the evidence gathering procedures are more limited than in a reasonable assurance engagement and therefore less assurance is obtained than in a reasonable assurance engagement. The choice of audit procedures is subject to the auditor's own judgement.

Within the scope of our engagement, we performed amongst others the following procedures:

- Inquiries of personnel on group level who are responsible for the materiality analysis to get an understanding of the process for identifying material topics and respective report boundaries for the LBBW Group.
- A risk assessment, including a media research, to identify relevant information on the LBBW Group's sustainability performance for the reporting period.
- Evaluation of the design and implementation of systems and processes for the collection, processing and monitoring of disclosures on environmental, employee and social matters, respect for human rights, and combating corruption and bribery, including data consolidation.
- Inquiries of personnel on group level who are responsible for determining disclosures on concepts, due diligence processes, results and risks, the conduction of internal controls and consolidation of the disclosures.
- Evaluation of selected internal and external documents.
- Analytical evaluation of data and trends of quantitative disclosures reported by all sites on group level .
- Assessment of the overall presentation of the disclosures.

Conclusion

Based on the procedures performed and the evidence received to obtain assurance, nothing has come to our attention that causes us to believe that the Statement of LBBW for the period from January 1 to December 31, 2017 has not been prepared, in all material respects, in accordance with Sections 315b and 315c in conjunction with 289b to 289e HGB.

Restriction of use/Clause on General Engagement Terms

This report is issued for purposes of the Supervisory Board of Landesbank Baden-Württemberg, Stuttgart, Karlsruhe, Mannheim and Mainz only. We assume no responsibility with regard to any third parties.

Our assignment for the Supervisory Board of Landesbank Baden-Württemberg, Stuttgart, Karlsruhe, Mannheim and Mainz, and professional liability is governed by the General Engagement Terms for Wirtschaftsprüfer and Wirtschaftsprüfungsgesellschaften (Allgemeine Auftragsbedingungen für Wirtschaftsprüfer und Wirtschaftsprüfungsgesellschaften) in the version dated 1 January 2017 (https://www.kpmg.de/bescheinigungen/lib/aab_english.pdf). By reading and using the information contained in this report, each recipient confirms notice of provisions of the General Engagement Terms (including the limitation of our liability for negligence to EUR 4 million as stipulated in No. 9) and accepts the validity of the General Engagement Terms with respect to us.

Munich, 13 March 2018

KPMG AG
Wirtschaftsprüfungsgesellschaft

Laue Wirtschaftsprüfer [German Public Auditor]	ppa. Auer

Note regarding forward-looking statements.

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

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

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