The oak. Its slow growth leads to the particular density and strength of its wood.

Grown stability.
The annual report 2016.

Landesbank Baden-Württemberg

LBBW

Key figures of the LBBW Group.

Income statement (EUR million)	1 Jan. – 31 Dec. 2016	1 Jan. – 31 Dec. 2015[1)]
Net interest income	1 624	1 654
Allowances for losses on loans and advances	– 51	– 55
Net fee and commission income	527	515
Net gains/losses from financial instruments measured at fair value through profit or loss	190	209
Net gains/losses from financial investments and net income/expenses from investments accounted for using the equity method	195	94
Other operating income/expenses	101	134
Total operating income/expenses (after allowances for losses on loans and advances)	**2 586**	**2 551**
Administrative expenses	– 1 814	– 1 782
Guarantee commission for the State of Baden-Württemberg	– 93	– 121
Expenses for bank levy and deposit guarantee system	– 71	– 73
Impairment of goodwill	– 379	0
Net income/expenses from restructuring	– 87	– 44
Consolidated profit/loss before tax	**142**	**531**
Income taxes	– 131	– 109
Net consolidated profit/loss	**11**	**422**
Key figures in %	1 Jan. – 31 Dec. 2016	1 Jan. – 31 Dec. 2015[1)]
Return on equity (RoE)	1.1	4.1
Cost/income ratio (CIR)	74.3	70.9
Balance sheet figures (EUR billion)	31 Dec. 2016	31 Dec. 2015
Total assets	243.6	234.0
Equity	13.1	13.6
Ratios in accordance with CRR/CRD IV (with transitional rules)	31 Dec. 2016	31 Dec. 2015
Risk weighted assets (EUR billion)	77.4	74.5
Common equity Tier 1 (CET 1) capital ratio (in %)	15.5	16.4
Total capital ratio (in %)	21.7	21.9
Ratios in accordance with CRR/CRD IV (Basel III after full implementation)	31 Dec. 2016	31 Dec. 2015
Risk weighted assets (EUR billion)	77.4	74.5
Common equity Tier 1 (CET 1) capital ratio (in %)	15.2	15.6
Total capital ratio (in %)	21.5	21.4
Employees	31 Dec. 2016	31 Dec. 2015
Group	10 839	11 120

Rating (2 March 2017)

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

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

LBBW's customer-oriented business model has proved to be successful in the challenging market environment we experienced in 2016. After adjustments for non-recurring items, we remained on target and achieved net consolidated profit almost matching the previous year's level. The stable performance in the operating business shows the high level of trust our customers place in us during these uncertain times. Today, LBBW features among the banks with the highest level of capital resources in Germany, and also enjoys an appropriate risk profile. This is a strategy that we will continue to pursue in the future.

It is certain that the market and competitive environment for banks will remain challenging going forward. In the fourth quarter of 2016, LBBW thus amortized goodwill from a previous company takeover amounting to EUR 379 million, pursuant to financial accounting under IFRS. This value adjustment did not impact our very solid capital ratios. We are now in an even more robust position to cushion difficult economic developments or negative movements on the market. In other words, if the underlying conditions were to worsen noticeably, we would not be required to adjust any more goodwill on our balance sheet. Despite the high amortization, we generated a significantly positive consolidated profit before tax of EUR 142 million. Our operating strength is also mirrored in our profit before tax of EUR 269 million, in accordance with the German Commercial Code (HGB), which is not affected by the goodwill amortization.

The solid development of the past years is based on a balanced business segment portfolio with a healthy blend of sales and refinancing. Our excellent clientele promises good income potential going forward. With a measured risk policy and outstanding capital base, we as a bank will remain a sought-after partner for other financial backers.

However, we cannot afford to, and we do not intend to, remain content with what we have achieved so far. LBBW and, likewise, its customers are required to prepare for numerous political and economic uncertainties in 2017. Other factors are a high pressure to invest in our IT platforms, persistently low interest rates, fierce competition and mounting regulatory costs. At the same time, customer behavior is changing as part of the digitalization process, and their demands and expectations of us as a bank are growing.

We are already focusing massive efforts on all these topics, which require vision and ideas; vision for examining the challenges that digitalization will bring us and our customers, and ideas on how to recognize the associated significant opportunities and translate them into economic success. Consequently, we have launched a number of change projects. During the coming years we will consistently work on our customer orientation strategy, our range of products, our market coverage and our efficiency. We will optimize our operating model and our business strategy, and accelerate all our internal change projects. Our goal is to become more effective, and to grow with our customers in all our business segments.

In doing so, we place greater emphasis on sustainable development than on short-term success. We strive for fair and long-term relations with our business partners who have relied on us for decades. The same applies to our investors, our owners and our many dedicated colleagues in the Bank who work hard with us to steer LBBW towards a successful future.

We would like to thank you all most sincerely for the trust you have placed in LBBW. We hope you enjoy reading our annual report and look forward to continuing to work with you in the future!

Yours sincerely,

The Board of Managing Directors

RAINER NESKE
Chairman

MICHAEL HORN
Deputy Chairman

KARL MANFRED LOCHNER

DR. CHRISTIAN RICKEN

ALEXANDER FREIHERR VON USLAR-GLEICHEN

VOLKER WIRTH

Report of the Supervisory Board.

Ladies and gentlemen,

The last banking year again featured negative interest rates, intense competition and a challenging regulatory environment. In view of these demanding conditions, I am glad that LBBW remained a reliable partner to its customers with sound capitalization and a solid risk exposure in the past financial year. The Bank, and in fact the entire sector, will have to face continuing change in the banking industry within the context of digitalization. At the same time, I am very confident that LBBW with its staff and customer portfolio has the best prerequisites to be successful going forward and to master the necessary internal changes.

In 2016, as in previous years, the Board of Managing Directors provided the Supervisory Board with regular, timely, and comprehensive information about key developments at the Bank and at the Group throughout the year. We intensively discussed the economic situation of the LBBW Group and the individual business units and critically scrutinized the Board of Managing Directors' corporate management and planning. The Board of Managing Directors kept us 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 we advised the Board on these matters. The Supervisory Board was involved in decisions of major importance for LBBW and, when required, granted its approval after extensive consultation and examination. Between the meetings, I, in my capacity as Chairman of the Supervisory Board, remained in close contact with the Chairman of the Board of Managing Directors to ensure a regular exchange of information.

Supervisory Board meetings.

In the year under review, the Supervisory Board held a total of six 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 personnel changes in other LBBW corporate bodies such as the advisory boards. The regulatory environment and banking supervision were topics of regular discussion at our meetings. For instance we looked at the EBA stress test 2016, the future development of capital requirements, the current Supervisory Review and Evaluation Process (SREP), the Audit Reform Act and the Market Abuse Regulation. Ongoing reviews by the regulatory authorities of particular relevance were also on the agenda.

During the first ordinary meeting of the year on 22 February 2016 we mainly considered the preliminary results for the 2015 financial year. The Board of Managing Directors also reported on ongoing discussions with the banking supervisory authorities and the takeover of the MercedesCard card portfolio from Mercedes-Benz Bank.

The focus of our 7 April 2016 meeting was the 2015 annual financial statements. The Board of Managing Directors and the auditors reported extensively on the previous financial year. Based on the recommendation of the Audit Committee we established the 2015 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 (WpHG) for the 2016 financial year. We also dealt with the latest developments regarding the European deposit guarantee system and the results of the bank-wide employee survey. Within the framework of the annual financial statements we also passed a resolution on the variable remuneration for the Board of Managing Directors for the 2015 financial year.

On 27 June 2016, alongside an extensive report by the Board of Managing Directors on the current business situation, we discussed the status of the IT transformation process. Above and beyond this, we addressed current inquiries from the regulatory authorities, the impacts of IFRS 9 and possible implications of »Brexit«.

In the 10 October 2016 meeting we considered LBBW's business strategy. Focal areas were the current change projects in the private customer business, in the regional corporate customer business, in the capital markets business and in international business. In addition to real estate sales, we approved the raising of subordinated capital and discussed the results of the annual evaluation of the Board of Managing Directors and Supervisory Board. Last but not least, we examined the then current topic of the ban on credit-linked notes.

During the last meeting of the year on 19 December 2016 we approved the business plan for the next financial year and took note of the medium-term planning. Further items of discussion were the current status of the IT transformation project, the updating of the restructuring plan and the budget for variable remuneration of the Board of Managing Directors and staff in the 2017 financial year.

Outside the meetings we passed a resolution by a written procedure that appointed Mrs. Edith Sitzmann MdL, Minister of Finance and Economics of the State of Baden-Württemberg, as Deputy Chairwoman of the Supervisory Board.

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 2016 Board of Managing Directors and Supervisory Board in accordance with the German Banking Act, the Market Abuse Regulation, the review of the principles for the appointment of senior management and the current status with regard to promoting the presence of the underrepresented gender on the Supervisory Board together with 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 (Institutsvergütungs-verordnung). 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 2016. 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. Furthermore, the Audit Committee discussed the half-yearly financial report with the Board of Managing Directors and the statutory auditor. In addition it discussed mandates for the statutory auditor within the scope of non-audit services. As well as this, it satisfied itself of the efficacy of internal control, risk, 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 design 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. In addition, the Audit Committee was kept informed of the progress of special audits and complaints by the regulatory authorities. The committee also received reports on the processing of findings at individual and structural level. Last but not least, the Audit Committee deliberated the Audit Reform Act.

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 the Board of Managing Directors 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 regularly dealt with current geopolitical risks related to the United Kingdom (»Brexit«), Russia, China, Turkey and the remaining holdings of a wind-down portfolio.

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 2016, 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 development measures, the Supervisory Board received training in two sessions on the topics of »Financial reporting of banks according to IFRS/HGB« and »Corporate analyses and ratings«.

Annual and consolidated financial statements.

The statutory auditor KPMG audited the annual financial statements and the consolidated financial statements of LBBW for 2016 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 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 24 March 2017 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 31 March 2017, 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 2016 and approved the consolidated financial statements for 2016.

Conflicts of interest.

The Risk Committee dealt with the credit approvals stipulated by Section 15 of the German Banking Act 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.

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 the owners, Mrs. Edith Sitzmann MdL, Minister of Finance and Economics of the State of Baden-Württemberg, was elected as the new Deputy Chairwoman of LBBW's Supervisory Board. She succeeded Dr. Nils Schmid, who resigned from his position on LBBW's Supervisory Board effective from the end of the annual general meeting on 30 May 2016.

At an extraordinary Supervisory Board meeting on 16 February 2016 we appointed Mr. Rainer Neske as of 1 July 2016 as a member of the Board of Managing Directors and from 1 November 2016 as its Chairman. Mr. Neske therefore succeeds Mr. Hans-Jörg Vetter, who had previously informed the Supervisory Board of his intention to retire in 2016.

Furthermore, effective from 1 January 2017 we appointed Dr. Christian Ricken as member of the Board of Managing Directors and successor to Mr. Ingo Mandt, who had been responsible for financial markets, international business and asset management. At his own request, Mr. Mandt resigned from the Board effective 31 December 2016 to take some time out.

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 2016 financial year. I would especially like to thank Mr. Vetter, who played a major role in restructuring LBBW in his seven years of managing the Group and making it the highly respected customer bank that it is today. I would also like to thank Mr. Mandt for his successful work over the past years. I wish their successors and the entire Board of Managing Directors every success in the future.

For the Supervisory Board

CHRISTIAN BRAND
Chairman

Supervisory Board of LBBW.

Chairman.

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

Deputy Chairpersons.

EDITH SITZMANN MDL
as of 4 August 2016
Minister of Finance and Economics of the State of Baden-Württemberg

DR. NILS SCHMID MDL
until 30 May 2016
Retired Minister

Members.

CARSTEN CLAUS
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 Württembergische Gemeinde-Versicherung a.G.

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
Eberspächer Gruppe GmbH + Co. KG

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

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 Chairpersons.

EDITH SITZMANN MDL
as of 26 September 2016
Minister of Finance and Economics of the State of Baden-Württemberg

DR. NILS SCHMID MDL
until 30 May 2016
Retired Minister

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 Chairpersons.

EDITH SITZMANN MDL
as of 26 September 2016
Minister of Finance and Economics of the State of Baden-Württemberg

DR. NILS SCHMID MDL
until 30 May 2016
Retired Minister

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
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

HELMUT HIMMELSBACH
Member of the Supervisory Board of Württembergische Gemeinde-Versicherung a.G.

SABINE LEHMANN
Employee Representative of Landesbank Baden-Württemberg

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

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
Chairman of the Board of Managing Directors
of Kreissparkasse Böblingen

WOLFGANG DIETZ
Lord Mayor of the town of Weil am Rhein

WALTER FRÖSCHLE
Employee Representative of Landesbank Baden-Württemberg

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

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 also contains nationally and internationally recognized standards for good and responsible corporate governance – 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 number of independent members of the Supervisory Board was increased from seven to a total of eight, including the Supervisory Board chairman, at the beginning of the new period of office of the Supervisory Board in May 2015.

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 5 May 2015.

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 participatory capital, silent partners' contributions as well as subordinated guarantee capital, and other forms of capital as provided for in the German Banking Act (Kreditwesengesetz) 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 and the Deputy Chairman 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 of the German Banking Act (Kreditwesengesetz). 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 board members, who have the same rights and obligations as the board members. 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 legislation on Landesbank Baden-Württemberg, 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. Two specialist seminars were organized in 2016 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 interest. 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 performance-related variable remuneration of members of the Board of Managing Directors in 2016 was guided by the Group's overall success; it was measured on the basis of the economic success[1)] over a three-year period, accounting for 50%, and the individual Board members' contribution to profit during 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 2016, the year under review, will be deferred over a four-year period and paid out on a pro rata temporis basis; negative performance contributions can reduce the deferral or lead to its expiry (malus). 50% of the deferred proportion of the variable remuneration granted for 2016, 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) Economic success combines a profitability figure (consolidated profit/loss after tax in accordance with IFRS) with the actual risk. In this process, the risks are taken into account in the form of cost of capital by including the minimum return on economic capital (Ökap).
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 2016.

In 2016, 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 2016 financial year, the members of the Board of Managing Directors received fixed contractually agreed remuneration totaling EUR 5.7 million for the performance of their duties on the Board. The other benefits amounted to EUR 0.1 million. In addition, variable performance-based remuneration totaling EUR 2.0 million was paid out (inflow). This amount includes percentages of deferred variable remuneration from previous years.

As at 31 December 2016, pension obligations according to IFRS for serving members of LBBW’s Board of Managing Directors as at the reporting date totaled EUR 17.4m.

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 remaining 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 2016.

For the 2016 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

Compliance.

Responsible entrepreneurial activities are based on compliance with rules and laws. Effective compliance management creates long-term transparency with regard to risks and prevents criminal activities such as money laundering, financing of terrorism, fraud, corruption, insider trading or market manipulation. At the same time, compliance with data protection laws, financial sanctions and embargos is monitored.

In addition, LBBW has established an internal control system (ICS) for monitoring business processes throughout the Bank. This process as an integral part of the risk-oriented ICS monitoring, consists principally of the following elements:

- risk assessment and documentation of key controls,
- self-assessment by the specialist divisions for improving the Bank-wide ICS during the year,
- evidence from the specialist divisions as to the effectiveness of the key controls,
- declaration on the status of the Bank-wide ICS as a basis for ICS reporting to the Audit Committee and Board of Managing Directors,

and the ICS management in the Compliance division for attending to the formal guidelines, as well as steering and assuring quality in the process steps throughout the Group.

Capital markets compliance.

One key focus of capital markets compliance in 2016 was on providing support and advice to the specialist divisions with regard to implementing new regulatory requirements, such as the European Markets in Financial Instruments Directive MiFID II and the Financial Market Regulation MiFIR. Here the focus is on issues relating to investor protection such as financial contributions and reporting obligations, to the same extent as market-related topics such as trading transparency.

The European Market Abuse Regulation came into effect as did the First Act Amending Financial Markets Regulations (Erstes Finanzmarktnovellierungsgesetz). Capital markets compliance supported the implementation of the relevant regulations within the Bank. The web-based training program »Basics of capital markets compliance« was updated and extended. Training also took place on market manipulation, insider-trading, market research and sanctions.

Within the context of securities trading supervision, LBBW expanded its on-site supervision and advanced its risk analysis system. The capital markets compliance unit improved its monitoring software and implemented a new process for reporting compliance-relevant information in line with new European stipulations.

Anti-money laundering.

To ensure honest behavior in tax matters, the Bank classified transactions with so-called tax havens in a number of potentially affected countries as transactions with high-risk countries and adjusted its risk model for customers based in these countries. As a result, increased reporting obligations are to be applied for customers located in these countries.

In 2016 the Payment Accounts Identity Verification Regulation replaced a temporary solution allowed by the German Federal Financial Supervisory Authority (BaFin) in 2015 for identifying refugees. Under certain conditions measures to simplify customer identification are permitted. LBBW was involved in implementing the amended requirements as well as setting up adequate controls and checking the effectiveness of the controls within the scope of its control plan.

Financial sanctions/embargoes.

As a result of further work on the written policies and system adjustments, LBBW has additionally raised the level of standardization in the handling of financial sanctions and embargo checks in the LBBW Group. Customers are checked against national and international sanction lists on a daily basis. Similarly, all foreign transactions are reviewed. The Compliance division supports the specialist divisions in the implementation and monitoring of national and international sanction requirements and advises them on matters pertaining to foreign trade law.

Prevention of fraud/other criminal offences.

LBBW has stepped up its monitoring activities in the area of fraud prevention and, among other things, performed risk-oriented on-site checks in the branches and individual divisions of the Bank. Furthermore, staff and customers were informed of new patterns of fraud and collaboration with the police in Baden-Württemberg was intensified. Another focal area was on supporting ongoing and future projects in the Bank, especially on new payment flow solutions and core Bank system migration.

Compliance according to MaRisk.

Pursuant to the 4th amendment of the Minimum Requirements for Risk Management for Banks (MaRisk) LBBW has a Compliance Function according to MaRisk, the purpose of which is to help ensure compliance with the main laws and parameters, to promote a bank-wide culture of compliance and thus a reduction of compliance risks. The Compliance Function pursuant to MaRisk, in particular:

- identifies the main legal provisions and parameters of importance to the Bank,
- works toward implementing appropriate and effective procedures to comply with these,
- monitors the adequacy and efficacy of the procedures implemented and
- finally reports on these;
- furthermore, the Compliance Function pursuant to MaRisk must be directly involved in the key procedures.

Data protection.

Topics related to data protection have taken on greater importance due to considerable changes to the regulatory environment and a greater awareness of the issues among all the stakeholders. Growing complexity has led to more intensive advisory work with the specialist divisions. The number of customer inquiries (complaints and requests for information) fell in 2016 compared to the previous year, due to a heightened awareness of the issues among customers and staff. A particular focus was on examining data breaches because of the possible risks they cause and possible necessary external reporting obligations.

A topic of major importance was the introduction of the EU Data Protection Regulation scheduled on 25 May 2018, which aims to ensure a uniform level of data protection in Europe.

The US-EU Privacy Shield was adopted as the follow-up regulation to the safe harbor topic of data exchange with USA, meaning that the transfer of personal data can be performed on a new legal basis.

Checks were also carried out to verify compliance with guidelines, as were training measures to raise awareness among staff.

Combined management report.

The LBBW (Bank) management report and the group management report are combined in accordance with Section 315 (3) HGB (Handelsgesetzbuch – German Commercial Code) in conjunction with Section 298 (3) HGB and published with the consolidated financial statements in the 2016 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).

Structure and business activities of the LBBW Group.

The Landesbank Baden-Württemberg (LBBW) Group for the most part comprises the single entity Landesbank Baden-Württemberg, which is referred to below as LBBW (Bank).

LBBW (Bank) is a public law institution (rechtsfähige Anstalt öffentlichen Rechts) with four registered offices in 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.

As a universal bank, LBBW (Bank) combines the range of services of a large bank with the regional proximity of its retail banks. This gives LBBW (Bank) a presence in its core markets of Baden-Württemberg, Rhineland-Palatinate and Saxony as well as other economic regions with their own regional brand:

- Baden-Württembergische Bank (BW-Bank) with its head office in Stuttgart operates the private and corporate customer business in Baden-Württemberg and in Bavaria. BW-Bank also assumes the role of a municipal savings bank within the state capital, Stuttgart. Wealth Management operates its market presence in principle under the BW-Bank brand.
- LBBW Rheinland-Pfalz Bank, with its head office in Mainz, focuses on business with SMEs in Rhineland-Palatinate, North Rhine-Westphalia, Hesse and Hamburg.
- LBBW bundles its business with SMEs and upper retail customers in Saxony and the neighboring regions under the umbrella of LBBW Sachsen Bank, which has its head office in Leipzig.

LBBW (Bank) offers the full range of products and services of a modern commercial bank. The business with large corporates, capital markets business, real estate financing and the Bank's function as the central bank for the savings banks in Baden-Württemberg, Rhineland-Palatinate and Saxony are located within LBBW (Bank) itself.

Essential staff and service functions are also concentrated within LBBW (Bank).

Furthermore, LBBW (Bank) supports the corporate customers of LBBW and of the savings banks with their activities abroad. A global network of branches and representative offices is in place to support customers with country expertise, market knowledge and financial solutions. LBBW operates German Centres in selected locations that make local offices and networks available to German corporate customers and advise them on their market entry.

Group companies for special products (leasing, factoring, asset management, real estate and equity finance) supplement the portfolio of LBBW (Bank)'s services within the Group.

Business model of the LBBW Group.

On the basis of its conservative risk policy LBBW particularly focuses on customer business in its core markets.

The LBBW business model rests on five pillars, with each pillar representing a main customer group. Its core markets are Baden-Württemberg, Rhineland-Palatinate and Saxony. Above all, LBBW is the partner for corporate and private customers in those regions as well as for the savings banks. This is accompanied by real estate financing and capital market products, which are also targeted at institutional customers

Corporate customers.

In corporate customer business the focus is on traditional SMEs, companies in the upper SME segment with a capital market connection and on groups with an increased capital market focus in the regional core markets and other attractive economic areas, such as North Rhine-Westphalia, Bavaria and the greater Hamburg area.

BW-Bank addresses corporate customers in Baden-Württemberg and Bavaria. In Rhineland-Palatinate, North Rhine-Westphalia, Hesse and Hamburg, this function is assumed by LBBW Rheinland-Pfalz Bank and in central Germany by LBBW Sachsen Bank. In addition, LBBW supports large corporates in Germany, Austria and Switzerland.

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 the offering.

Private customers.

BW-Bank is the savings bank of the state capital, Stuttgart. It offers its full range of services, thereby guaranteeing citizens the full array of basic banking services.

Outside Stuttgart, LBBW's business model in the private customer business is geared mainly to the segment of upper retail customers in Baden-Württemberg, Rhineland-Palatinate, Saxony and other economic areas. Wealth Management supports high-net-worth customers and those with complex asset structures. The comprehensive offering of products and services ranges from classic checking accounts, credit card business and basic financing to complex securities and pension-savings products.

In order to take into account the many and varied challenges in private customer business, principally the trend towards increasing digitalization, LBBW continues to work on becoming an integrated multi-channel bank. This involves providing a comprehensive digital and advisory service on the one hand while the branch network is focusing more on complex consulting on the other.

Savings banks.

In this business area, LBBW primarily acts as a central bank to savings banks in the core markets of Baden-Württemberg, Saxony and Rhineland-Palatinate, forming a service partnership with them and providing them with a wide range of products and services.

The cooperation is based on three areas of business in particular:

- The savings banks' proprietary business. The range of services includes all of the savings bank's hedging and investment product categories.
- In market partner business, LBBW products in corporate and private customer business are offered for resale to the savings banks' own retail and corporate customers, in addition to joint loan extension.
- Services business includes research, securities clearing and management, international payment transactions, documentary payments etc.

In regional partnerships it collaborates closely with savings banks across all product areas; outside the core markets products and services are selectively offered to other savings banks as well.

Real estate financing.

At LBBW, real estate financing comprises the commercial real estate business. Its target customers are professional investors, special funds, real estate investment trusts and housing companies as well as open and closed-end real estate funds. Finance is mostly provided for real estate held for leasing. Types of use include, in particular, residential, office, retail and logistics, principally on the target markets of Germany (nationwide), the USA and the UK.

In addition, LBBW within real estate financing acts as a service provider in syndication business with a high level of competence when it comes to structuring and arranging large-volume transactions.

The subsidiary LBBW Immobilien Management GmbH offers supplementary services.

Capital markets business.

In this business area, customer-oriented capital markets business, asset management and foreign operations are pooled and closely interlinked. The product range is aimed consistently at the customer's requirements – which are determined in close contact with the customer – and comprises capital market investments, (capital market) financing, risk management products and financial services (including the custodian bank function), and research.

The focus is on four customer groups in particular: savings banks, banks, corporate and institutional customers. Individual market development strategies are used to take into account the heterogeneity of customer requirements. Export-oriented customers are supported specifically through LBBW's tailor-made offers for foreign business and its international network.

LBBW's asset management business is pooled within group subsidiary LBBW Asset Management Investmentgesellschaft mbH. The range of offers it provides includes consulting and management of security trust assets as well as custody services for institutional and private investors, corporate customers, savings banks and other banks.

Credit investment.

LBBW's segment reporting additionally includes the credit investment segment. It pools inter alia the Group's credit substitute portfolio which has now been largely run down.

Future investment as part of the business model.

The LBBW Group addresses the current challenges through comprehensive change initiatives; numerous internal initiatives and projects were launched at an early stage. Where necessary, restructuring provisions were set aside to this effect at the end of 2016.

This includes above all the fundamental modernization of the Bank's IT landscape, which forms the basis for achieving further efficiency enhancements. A key element of the comprehensive IT transformation is the introduction of a new core banking system in 2017 (OSPlus), which will create the basis for increased standardization and optimization of business processes.

In response to the underlying complexity of the business, capacities will also be focused gradually in the loan processing area (back office). The streamlining and improvement of processes and structures is leading to improved cost efficiency and greater effectiveness.

Another important initiative of the previous financial year was the realignment of private customer business and private banking. The restructuring is progressing on schedule: LBBW has expanded its digital offerings and has started on the reorganization of the branch network it announced. The expansion strategy was continued successfully in Wealth Management.

The LBBW Group has also realigned its activities in the capital markets business. The customer-oriented capital markets business was optimized along the value chain on the one hand, while particular emphasis was placed on more intensive utilization of the good business potential on the other. This will lead to closer interlinking between LBBW Asset Management and the sales units of the parent company.

Measures were initiated in the regional corporate customer business to increase the efficiency of customer assistance and therefore to continue with the permanent optimization of this business.

In addition, the LBBW Group continues to focus on a selective growth strategy in all pillars.

Segment allocation and coordination.

The five pillars of the business model can be transferred to the presentation of the segment logic of LBBW's external reporting: The two pillars of **corporate customers** and **real estate financing** are assigned to the **Corporates** segment while **private customers** and **savings banks** form part of the **Retail/Savings Banks** segment. The **Financial Markets** segment, which was renamed **Capital Markets Business** at the start of 2017, corresponds – apart from the treasury activities, which were also allocated – corresponds largely to the **Capital markets business** pillar. Information on the segments can be found in the IFRS segment report 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 Bank is provided through comprehensive, target-oriented monthly reports. The following financial performance indicators are of particular relevance to the management of the Group:

- the 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 after full implementation)
- 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)
- the cost/income ratio (ratio of administrative expenses to total 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)
- consolidated total assets (IFRS)
- utilization of the aggregate risk cover (Bank's own calculation pursuant to MaRisk)
- return on equity (annualized consolidated profit/loss before tax with reference to average equity tied up for supervisory purposes, which is adjusted for the effects on earnings reported directly in equity)
- liquidity coverage ratio (in accordance with CRR/ITS)

Social responsibility.
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. Besides excellent, professional skills, in-depth customer orientation and integrity, LBBW's employees must demonstrate a meanwhile constant willingness to change and be open to new market developments.

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 increasingly 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 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.

Employee numbers.

	LBBW (Bank)		LBBW	
	2016	2015	2016	2015
Employees	9 030	9 291	10 839	11 120
Proportion of women	52.4 %	52.4 %	52.5 %	52.5 %
Proportion of men	47.6 %	47.6 %	47.5 %	47.5 %
Part-time employees	28.6 %	26.8 %	26.9 %	25.2 %
Full-time employees	71.4 %	73.2 %	73.1 %	74.8 %
Apprentices (including students at universities of cooperative education)	369	449	394	471
Proportion of apprentices	4.1 %	4.8 %	3.6 %	4.2 %

As at 31 December 2016, the number of employees at LBBW fell to 10 839 (previous year: 11 120), due in particular to the adjustments to its strategic alignment. The staff fluctuation rate based on the Confederation of German Employers' Association's (BDA) formula rose to 4.6 % for LBBW (Bank) in 2016, up from 3.4 % in the previous year. Adjusted for restructuring-related early retirement and severance agreements (1.5 %), the rate was unchanged at 3.1 % at LBBW (Bank).

At 44.2 years, the average age of employees at LBBW (Bank) in the year under review increased slightly over the previous year (previous year: 43.4 years). The average length of service also increased marginally to 18.3 years, a slight rise for the Bank (previous year: 17.5 years). Women held a small majority over men at LBBW again in 2016, accounting for 52.5 % (unchanged from 2015). The proportion of part-time employment contracts, including reduced working hours due to partial retirement, rose slightly at LBBW from 25.2 % to 26.9 %.

In 2016, the main focus of the personnel development activities accompanying LBBW's strategic alignment entailed measures aimed at accompanying restructuring within individual business segments and at the targeted training of the workforce for an increasingly competitive environment. Besides workflows, demands made on the employees are changing much more frequently. Accordingly, internal changes accompanied by employees' willingness to pursue fresh professional challenges within LBBW are becoming increasingly important. LBBW's jobs market, which enjoys a very high level of acceptance, plays an important role here. Almost all the 684 vacancy notices in the LBBW Group were filled by means of internal applications, re-entry following family leave and the employment of apprentices and trainees.

Within the scope of its social responsibility as a public-sector bank, LBBW is expressly committed to developing and promoting young employees despite the difficult market setting. Although the Bank anticipates less demand in the private customers/private banking segment, 109 apprentices and students embarked on their professional career with LBBW (Bank) in August 2016 (previous year: 199). With its training opportunities, the LBBW Group aims to support the development of young people and to thus recruit qualified and ambitious junior staff for the Bank. The number of applications for an apprenticeship/traineeship or place at a university of cooperative education climbed in 2016 by more than 20% over the previous year to 4 163 (previous year: 3 405). LBBW therefore remains a highly interesting employer to school-leavers. At the end of 2016, a total of 394 (previous year: 471) apprentices and students at universities of cooperative education were employed by the LBBW Group.

Personnel development.

LBBW (Bank) offers a comprehensive internal training program to ensure the focused qualification of its employees. This comprises some 200 seminars and training opportunities that also consciously include training in methodological and social competence alongside the focus on technical qualifications. These offerings 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 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.

In order to successfully structure change processes within LBBW, various change management workshops were held in 2016. In addition, a number of managers took advantage of the LBBW management consulting team's coaching workshop to receive individual consulting and support relating to management and personality.

Harnessing the potential of women.

As a company whose share of female managers is still well below the share of female employees, a sustainable human resource management sees it as a very important objective to recognize and better utilize the existing potential offered by ambitious women. At the end of 2016, the proportion of female employees within LBBW was unchanged at 52.5%, while the percentage of female managers in tier 1 to 4 management levels came to 16.9% (previous year: 16.6%). A comprehensive concept adopted by the Board of Managing Directors is therefore specifically designed to encourage women to assume managerial responsibility on all hierarchy levels.

Our aim is to raise the interest of women in top-level positions and to strengthen their resolve to assert themselves in the competition for management positions. In addition to coaching, LBBW has also been offering the »Courage to succeed« seminar since 2013, which is targeted at the female workforce. 124 women have attended the seminar to date. A mentoring program geared specifically to women is also being continued, following the successful conclusion of a corresponding pilot project. The Bank also supports the women's network as a visible sign that within LBBW high importance is attached to the promotion of women. The network that has been in existence for over eight years, together with other informal and project groups, makes an active contribution to relevant issues.

Work-life balance.

The provision of attractive offerings to ensure a better work-life balance is a key element of a successful human resources policy and of strengthening the employer market for LBBW. For example, over the past few years more and more employees, particularly the fathers, have been taking parental leave or time off to care for relatives. 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. In addition to a flexible work timeframe, LBBW offers different kinds of working time models, such as options for switching to part-time working or for extended periods of leave by means of working-time accounts. The effectiveness of the measures offered were also confirmed again 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.

Support in childcare is another significant offering. For example, Bank employees can utilize childcare services at all head offices. Depending on individual requirements, custom-fit solutions are available, for example children's day care services, emergency childcare and special arrangements during the school holidays. Moreover, LBBW offers the advisory and search assistance program of external service provider pme Familienservice to all its employees.

LBBW (Bank) employees may apply for an additional six months of leave to look after a relative requiring care on top of the care period in accordance with the Care Leave Act.

Company health management.

Investment in company health management is a strategic success factor for LBBW (Bank) within the scope of its human resources tools. The aim is to evaluate and, as far as possible, optimize all material factors in the Bank impacting health, such as physical working conditions or work processes. When it comes to shaping the work environment, company medical officers and qualified personnel are called upon to ensure work safety in advance in order to make the workplace as healthy as possible. This pertains to the stipulation of building and IT standards, for example, as well as individual measures such as construction and conversion. »Soft« factors such as leeway at work, the respect that employees perceive, the scope which they have for the performance of their duties, perceptions of fairness and social support also exert a particular impact on health. As managers play a decisive role in these aspects, they undergo compulsory and systematic training in »health-oriented management« at LBBW (Bank).

Employees themselves are also given a wide range of incentives to maintain and improve their own health. Among other things, a healthy lifestyle is encouraged by a range of exercise and relaxation options close to the workplace, advice on preventative healthcare, and through cooperations with fitness studios. Some of the canteens are certified in accordance with organic food standards, offering a wide range of healthy food. In addition to comprehensive medical care, the company medical service provides a wide variety of occupational healthcare and socio-medical services to all employees at locations with a large workforce. Employees at decentralized locations may use qualified external professionals. The psychologists and educationalists of the social affairs office of LBBW (Bank) provide advice and support to employees and managers on problems related to work or private life, as well as on mental health problems, illnesses and addiction. Psychological assistance is given in case of acute crises. An important element of the offering is the office's ability to refer employees to suitable specialist bodies, clinics and therapists.

In addition to providing advice in individual cases, prevention activities are increasingly gaining in importance. A great many employees were reached within the scope of workshops held on the topics of resilience, dealing with difficult customer situations and mental health.

Remuneration report.

In accordance with the provisions of Section 16 of the Remuneration Ordinance for Institutions (InstitutsVergV) in conjunction with Article 450 of Regulation (EU) No. 575/2013 (CRR), LBBW (Bank) prepares a remuneration report every year, which it publishes mid-year on its homepage www.lbbw.de.

LBBW improvement process.

The regulatory requirements and the market setting that is characterized by intense competition require the constant optimization of workflows and products. The LBBW improvement process motivates employees to participate continuously in the Bank's further development through creativity and commitment. The LBBW improvement process also aims to promote risk awareness and entrepreneurial thinking and action among the workforce, as well as and innovativeness on the part of employees.

The challenges presented by digitalization in particular require ideas to be incorporated actively in the development process in all segments and across all levels of the Bank. All the employees are therefore invited to use their knowledge and suggestions for improvement, so that we can offer our customers products and services that are constantly updated. The efficiency of high-performance workflows that constantly adjust to market requirements is supported and forms a basis for consistently high quality.

The suggestions for improvement that were implemented helped make numerous work processes more efficient last year too, while at the saving time, saving costs, generating additional revenues and reducing risk. The number of suggestions for improvement submitted by the employees in 2016 was 4 170. The benefit generated by the proposals was increased by 48%, from EUR 14 million in 2015 to EUR 20.7 million in 2016.

The LBBW improvement process actively supports networking between employees from all specialist areas. Employees thus become involved through targeted concept campaigns for designing digitalized work processes or in developing innovations. This supports the cross-segment perspective in realizing new topics.

Employees will be once again invited in 2017 to develop good ideas and present them to the Bank in order to contribute to sustained, high-performance and high-quality work processes, services and products.

Sustainability.

LBBW's commitment to sustainability is anchored in both its business strategy and its business operations. The Sustainability policy and goals, as well as the associated principles and guidelines for their implementation, provide a binding framework for responsible action on the part of each individual, thus creating the basis for sustainable corporate governance.

Sustainability strategy and management.

LBBW revised its framework fundamentally in 2016. It was last adjusted in 2010. Since then, the sustainability topics have been developed and further new sustainability issues anchored in the Bank's core business. We are adjusting to current developments by updating our framework.

The **Sustainability Policy** provides guidelines that form a framework for all sustainability activities at LBBW and forms the basis for integrating economic, environmental and social issues into our business activities as a whole. It was extended to include the factor »Customers« and therefore consolidates LBBW's guidelines on sustainable development in the areas of strategy and management, customers, employees, business operations, social commitment and communication.

For purposes of implementing the Sustainability Policy, LBBW has defined **overarching goals**, which are broken down into individual targets and specific measures, and put into operation in the annual Sustainability Program. New goals were formulated for the areas of social commitment and communication, aimed at taking greater note of, for example, the constructive exchange with stakeholders or the diversity and equal opportunities within the company.

The concrete orientation framework for the implementation of the overarching sustainability goals are the »**Sustainability Guidelines**« for the investment and lending business, for human resources and the handling of resources. The contents of the »Sustainability Guidelines« were amplified and renamed **»Principles and Guidelines for Implementation of LBBW's Sustainability Policy and Goals«.** Added to this were concrete exclusion criteria for individual business ventures and overarching principles such as compliance, human rights and biodiversity. The climate strategy agreed in 2011 was also integrated as an overarching principle. It describes the LBBW's position on key climate-related issues.

The Sustainability policy and goals, as well as the associated principles and guidelines for their implementation, apply to LBBW (Bank) including BW-Bank, LBBW Rheinland-Pfalz Bank and LBBW Sachsen Bank, as well as to the wholly-owned subsidiaries integrated in the sustainability management system of LBBW (Bank), namely GastroEvent GmbH, LBBW Immobilien Management GmbH, BW Immobilien GmbH and LBBW Asset Management Investmentgesellschaft mbH, all of which are based in Stuttgart.

LBBW's sustained commitment is described comprehensively at www.lbbw.de/sustainability. LBBW plans to publish the next detailed sustainability report by June 2017; this report contains the figures as at 31 December 2016.

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 the top three out of 84 banks analyzed internationally in the »Financials/Public & Regional Banks« segment as at October 2016. LBBW meets the minimum standards for sustainability management defined by oekom research and is ranked »Prime«. This means that LBBW's market-traded securities have qualified to be selected as an investment from an environmental and social viewpoint.
- In the **Sustainalytics** Sustainability Rating, LBBW received 77 of a 100 possible points and therefore holds 12th place out of 396 in the international banks category.
- In **imug**'s 2016 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.
- LBBW received an overall rating of AA in the **MSCI ESG Research** 2016 sustainability rating.

Data and facts.

Personnel policy (figures for LBBW (Bank)).

	2016		2015		2014	
	Men	Women	Men	Women	Men	Women
Breakdown of managers (Tier 1 to 4) in %[1]	83.1	16.9	83.4	16.6	83.5	16.5

	2016		2015		2014	
	Absolute	Percentage	Absolute	Percentage	Absolute	Percentage
Number of severely disabled employees or equivalent status[2]	437	4.8	435	4.7	434	4.7

	2016	2015	2014
Average age	44.2	43.4	42.8

	2016	2015	2014
Average length of service in years	18.3	17.5	16.9

Investment business.

EUR million	2016	2015	2014
Volume of sustainable cash investments at LBBW Asset Management Investmentgesellschaft mbH	1 024.7[3]	682.9[4]	597.5[4]

Lending business.

EUR billion	2016	2015	2014
Volume of renewable energies project finance/loan drawdowns	2.34	2.47	2.54[5]

1) The 2014 figures differ by 0.1 % from those stated in the LBBW Sustainability Report for 2015. In the Management Report the members of the Board of Managing Directors were not included in the calculation; they were, however, included in the Sustainability Report. From 2015, the figures will be calculated uniformly (including members of the Board of Managing Directors) for both reports.
2) The number of severely disabled employees or 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 Management Report and the LBBW Sustainability Report.
3) In 2016 LBBW Global Warming was added for the first time to the sustainable assets under management. This is owing to the heightened profile of the fund that now takes into consideration a climate rating and externally audited exclusion criteria – based on violations of the UN Global Compact. In addition, an existing sustainability mandate was transferred in 2016 to sustainable asset management and the corresponding volume also included.
4) The figure stated includes the »LBBW Nachhaltigkeit Aktien« fund, the »LBBW Nachhaltigkeit Renten« bond fund and the Nachhaltigkeit special funds.
5) This figure deviates from that in the 2014 Management Report due to the correction of a rounding error.

Business report for the Group.

Overall economic development.
Global economy.

Global growth momentum was slightly less pronounced than previously in the year under review. According to the IMF's estimates, global GDP increased by 3.1% compared with 3.2% in 2015. This is compared with a decline from 2.0% to 1.7% in euro area GDP growth. China's economic output rose by 6.7% and therefore close to the 2015 figure of 6.9%. GDP in the USA grew by only 1.6%, which was a setback from 2015, when GDP rose by 2.6%.

The descent that had started in the previous year continued for the price of oil at the start of 2016. At the end of January, a barrel of Brent crude was trading at less than USD 30. Oil prices picked up again during the year and stabilized at around USD 50 per barrel. The rate of inflation in the euro area remained muted, supported by the related fall in household energy and fuel prices. Inflation for the year 2016 as a whole was only 0.2%, with a low of – 0.2% reached in both February and April.

Germany

Germany was marked by the continued recovery in 2016. According to preliminary information, German GDP increased by 1.9%. Taking into account the number of working days, this resulted in a calendar-adjusted plus of 1.8%. This compares with the calendar-adjusted GDP growth of 1.5% achieved in 2015. Growth was driven by domestic demand; private consumption and government spending were up sharply. Foreign trade strained the total result somewhat. The inflation rate was exceptionally low in the year under review. The consumer price index in Germany increased by only 0.5% for the full-year 2016 over the prior year, especially because of the sharply lower price of oil at the start of the year.

Central bank policy.

In the environment of very low inflation rates, the European Central Bank strengthened its expansive monetary policy even further to address what it sees as the risk of deflation for the euro area. It lowered its main refinancing rate in March, from 0.05% to 0% and its deposit facility rate from – 0.30% to – 0.40%. It also extended the volume of its monthly purchases within the scope of the Asset Purchase Program (APP) from EUR 60 billion to EUR 80 billion. Furthermore, it eased the underlying conditions for its bond purchases in order to realize this volume. It additionally announced a new series of four targeted long-term refinancing operations (TLTRO), through which it provides commercial banks in the euro area with liquidity for four years. The first tranche of these TLTROs was allocated in June and the most recent in March 2017. The volume available for each individual bank and the refinancing rate depend on the bank's lending operations. At best, the respective commercial bank could be allocated the tranche at the deposit facility rate, i.e. at – 0.40%. The ECB modified the APP once again in December, where it extended the original duration of the program from March 2017 to December 2017. It will reduce the monthly purchase volume to EUR 60 billion from April 2017 to December 2017. The bonds maturing from the previous program will be reinvested again in the market. To ensure that the total volume necessary for this is available on the market, the ECB has included bonds with a remaining term to maturity of at least one year and a market yield below the deposit rate of – 0.40% in the purchase program.

While the monetary policy in the euro area became even more expansive as a result, the Federal Reserve in the USA continued on its cautious path of monetary policy tightening. In December 2016 it raised the range for its key interest rate by a further 25 basis points to between 0.50% and 0.75%. This was the second rate hike in succession after December 2015.

Bond market.

In addition to monetary policy, unexpected election results in the UK and the USA were responsible for price volatilities. Contrary to the forecasts, the majority of UK voters decided on 23 June in favor of the United Kingdom's exit from the European Union, with markets reacting initially with sharp declines in equity prices and falling yields for Bunds, which are viewed as a safe haven. 10-year Bund yields fell to – 0.20% in the first week of July. The second surprise was Donald Trump's victory in the presidential election in the USA. During his election campaign, Trump announced an economic policy program aimed at erecting trade barriers, introducing tax cuts and debt-financed government spending. 10-year US Treasury yields climbed from 1.86% the evening before the election to as much as 2.45% at the end of the year. The ECB's measures enabled 10-year Bund yields to escape this trend; they concluded the year at 0.19% compared with 0.63% at the end of 2015.

Currency market.

The euro started the year at an exchange rate of nearly USD 1.09 per euro. It appreciated to just below USD 1.16 per euro up to the start of May and tended towards weakness for the remainder of the year on the back of factors such as the easing of monetary policy in the euro area, the tightening in the USA and the Brexit vote. It dipped to a low of below 1.04 just before Christmas and closed at 1.05 at year-end.

Stock market.

The year started with substantial losses. Widespread concerns about a slowdown in economic growth weighed on the equity markets. The DAX reached a low (closing prices) at 8 753 points on 11 February. At 15 660 points, the Dow Jones also closed on an annual low on the same day.
A recovery set in during the further course of the year, which led to a year-end rally. The Dow Jones Industrials climbed from 18 332 points on 8 November, the date of the US presidential elections, to 19 762 on the closing date, while the DAX rose from 10 482 to 11 481. The Dow Jones and the DAX had started the year at 17 425 and 10 743 points, respectively.

Banking industry performance.

The stable economic conditions in Germany benefited the German banking industry in 2016. Predominantly good asset quality and the related 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 increasingly, especially for banks with heavily interest-dependent business models. The banking industry continues to face significant pressure to adjust to 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 2016.

Burdening factors in part impacted on the business performance of the banking industry in the 2016 financial year too. Persistently low or, in some cases, even negative interest rates continued to increase the pressure on the banks' results of operations. This was accompanied by the unfavorable environment of high regulatory and competitive intensity. In addition, there are still uncertainties concerning the terms of Brexit, so that it is not yet possible to make a reliable estimate of the impact on Europe's economic development and on the banks. Although the pound sterling devalued considerably after the Brexit vote, this had virtually no impact on LBBW given the mainly closed currency positions. LBBW benefited in the financial year from having firm roots in strong core regions, supported in particular by long-standing customer relationships, a large number of customers and excellent product expertise. The trend of the central performance indicators needs to be evaluated in a differentiated manner. The regulatory capital requirements and liquidity ratios were once again exceeded significantly, while the profitability figures fell owing to a non-recurring effect. The three operating segments Corporates, Financial Markets and Retail/Savings Banks achieved a significantly positive contribution to earnings overall.

Adjusted for the non-recurring effect from impairment of goodwill, the LBBW Group's operating business continued its good performance from the previous year in 2016. At EUR 521 million, consolidated profit before tax and before the aforementioned non-recurring effect was close to the previous year's level (previous year: EUR 531 million) and is proof of a solid business model. After taking into account the impairment of goodwill, this yielded **profit before tax** of EUR 142 million. Investment transactions and revenues from securities transactions had a positive influence on net gains/losses from financial investments in particular. The earnings performance also benefited from an improvement in net fee and commission income, especially in the securities and the custody business, as well as from the lower expenses for the guarantee provided by the State of Baden Württemberg. In contrast, net gains/losses from financial instruments measured at fair value through profit or loss were down moderately on the previous year due to measurement influences. At the end of the 2016 financial year, the goodwill allocated to the Corporates segment was written off in full following an impairment test; this resulted mainly from the acquisition of Sachsen LB in 2008. Looking forward, the cash flow forecast for the Corporates segment bearing the goodwill was revised mainly on account of the lower potential for earnings performance. Key influencing factors here were the extremely low interest rates due to the expansive monetary policy the ECB continues to pursue, increasingly intense competition in the banking market driven not least by digitalization and a further tightening of the regulatory environment.

Following a prolonged phase of falling volume from 2008 to 2015, **total assets** increased again in 2016 in line with expectations, by EUR 9.6 billion to EUR 243.6 billion (previous year: EUR 234.0 billion). This was primarily as a result of the expansion of highly liquid positions and of an increase in the customer business, with growth reported especially with large corporate customers. Furthermore, trading assets measured at fair value decreased as a result of maturities and of the general interest rate and credit spread developments. In addition, there were changes in recognition or shifts between individual balance-sheet items due to the restructuring of the capital markets business. This impacted especially on the balance-sheet items financial assets at fair value through profit or loss, loans and advances to customers and banks, and deposits from customers and banks.

Consolidated profit/loss before tax for the 2016 financial year fell significantly short of the target figure due to the non-recurring effect of impairment of goodwill; adjusted for the non-recurring effect, consolidated profit/loss before tax was **in line with the forecast**. The figure was boosted again by considerably lower than planned expenses on allowances for losses on loans and advances. LBBW benefited primarily from the good economic situation in its core markets. The performance of net gains/losses from financial investments also exceeded expectations considerably. This was due to investment transactions such as the sale of cellent AG and of shares in VISA Europe Limited.

Net interest income, which was defined by interest rates that remain at a historically low level and by lower demand for credit owing to the companies' high liquidity holdings, fell slightly short of the target figure in the year under review. Administrative expenses performed slightly better than expected. Despite comprehensive spending on the restructuring of the IT architecture and high costs for regulatory requirements, administrative expenses were almost at the previous year's level. On balance, the **cost/income ratio (CIR)** came to 74.3% at the end of the year (previous year: 70.9%) and rose moderately especially due to lower than expected interest income. 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. **Return on equity (RoE)** fell by 3.0 percentage points to 1.1% (previous year: 4.1%) and was thus slightly lower than planned. After adjusting for non-recurring effects from the impairment of goodwill, the RoE figure of 4.1% is in line with the previous year, which is also slightly above target. The performance indicator 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.

As mentioned above, **total assets** of the LBBW Group increased slightly in the course of the year. Nonetheless, they fell slightly short of the target value, largely due to weaker than anticipated demand for credit.

The **financial position** of the Group throughout the entire year under review was satisfactory at all times given the good liquidity. The structural funding of the LBBW Group 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. All in all, the Group was always able to obtain funding on the market on the requisite scale.
Once again, in addition to private placements, successful benchmark issues were placed on the market in 2016 in the form of covered bonds and uncollateralized bearer debentures. These issues met with substantial interest not only from domestic but also from international investors.

LBBW's **liquidity coverage ratio (LCR)** in accordance with the Delegated Act (EU) No. 2015/61 on the liquidity coverage requirements stood at 110.4% at year-end 2016 and thus substantially exceeded the statutory minimum ratio of 80% applicable from 1 January 2017, and is also significantly higher than the minimum ratio of 100% that will be applicable after the end of the phase-in phase from 1 January 2018.

LBBW's **leverage ratio** at the end of 2016 was 4.6% (fully loaded) and thus virtually unchanged from the previous year (4.7%) and significantly above the minimum rate of 3.0% set by Basel III (CRR).

LBBW's good capitalization and solid business model were once again confirmed during the year under review; all the regulatory capital requirements were clearly exceeded. With a **common equity Tier 1 capital ratio** of 15.2% (previous year: 15.6%) and a **total capital ratio** of 21.5% (previous year: 21.4%), LBBW substantially exceeds the increased regulatory capital requirements of the CRR based on full implementation of the transitional rules (fully loaded). This meant that it could also significantly exceed its own targets. Like all institutions under the ECB's supervision LBBW has had to meet capital requirements specific to each institution since 2015. The individual requirements, which are above the statutory requirements of the CRR, are usually set annually by the ECB on the basis of the Supervisory Review and Evaluation Process (SREP). The ECB informed LBBW in November 2016 that it is required to hold a common equity Tier 1 capital ratio of 8.09% from 1 January. 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 relevant financial institutions, as well as the common equity Tier 1 capital to be held as a countercyclical capital buffer in accordance with Section 10d KWG, is included in this ratio. The ECB has also declared a capital recommendation that goes beyond the mandatory requirement, which must also comprise CET1 capital. **Risk weighted assets (RWA)** increased moderately by EUR 2.9 billion to EUR 77.4 billion (previous year: EUR 74.5 billion) due to the slight increase in counterparty and market price risks. However, given the slight rise in the companies' good liquidity situation and related low demand for credit, they fell slightly short of the target. The risk-bearing capacity situation, which was already comfortable, has improved once more, including as part of economic capital management. With a ratio of 43.9%, utilization of the **aggregate risk cover** for 2016 was 4.2 percentage points below the previous year's figure (48.1%) and perceptibly below our own forecast.

Results of operations.

Figures:

	1 Jan. 2015 – 31 Dec. 2016 EUR million	1 Jan. 2015 – 31 Dec. 2015[1] EUR million	Change EUR million	in %
Net interest income	1 624	1 654	– 29	– 1.8
Allowances for losses on loans and advances	– 51	– 55	4	– 7.3
Net fee and commission income	527	515	11	2.2
Net gains/losses from financial instruments measured at fair value through profit or loss	190	209	– 18	– 8.8
Net gains/losses from financial investments and net income/expenses from investments accounted for using the equity method	195	94	101	> 100
Other operating income/expenses	101	134	– 34	– 25.0
Total operating income/expenses (after allowances for losses on loans and advances)	**2 586**	**2 551**	**35**	**1.4**
Administrative expenses	– 1 814	– 1 782	– 32	1.8
Guarantee commission for the State of Baden-Württemberg	– 93	– 121	28	– 23.1
Expenses for bank levy and deposit guarantee system	– 71	– 73	2	– 3.2
Impairment of goodwill	– 379	0	– 379	100.0
Net income/expenses from restructuring	– 87	– 44	– 44	99.7
Consolidated profit/loss before tax	**142**	**531**	**– 389**	**– 73.3**
Income taxes	– 131	– 109	– 22	20.4
Profit/loss from discontinued operations	0	0	0	
Net consolidated profit/loss	**11**	**422**	**– 411**	**– 97.4**

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

Despite the ongoing historically low level of interest rates, **net interest income** fell only marginally year-on-year by EUR – 29 million to EUR 1 624 million. Among other things, the fact that fewer charges from accounting-specific matters had to be taken into account relative to the previous year had a stabilizing effect. However, the extremely low level of interest rates, which reached new lows in 2016, owing to the ECB's expansive monetary policy, had a burdening effect. This reduced inter alia the contribution to results in the deposit-taking business with customers and the investment of LBBW's own funds. Although the decline in total assets compared with previous years increased slightly for the first time again in 2016, these comprise mainly highly liquid positions with correspondingly low interest rates. The impact of the marked decline in volume at the end of the previous year with the corresponding higher rates of interest in part was still felt. In the lending business, lending to large corporates was extended selectively, albeit only at a low level because of the intense competitive situation and the companies' good liquidity situation. LBBW continued its approach of focusing on low-risk new business.

Expenses for **allowances for losses on loans and advances** were more or less unchanged from the previous year and fell marginally by EUR 4 million to EUR – 51 million. While the reversals fell more year-on-year than the additions to allowances, the direct write-downs were significantly reduced compared with the previous year. The allowance requirement thus remained significantly below the long-term average due to a balanced risk policy and to the good economic situation in LBBW's core markets.

Net fee and commission income reported a positive performance with a EUR 11 million increase to EUR 527 million (previous year: EUR 515 million). Spurred by LBBW's strong position in arranging structured capital market issues, the result in the securities syndication business improved in particular. Commission earned in the business with funds and the custodian business increased too so that fees and commissions from the securities and custodian business rose by EUR 14 million to EUR 173 million. Income from payment transactions through cooperations in the credit card business also grew slightly by EUR 8 million. By contrast, net fee and commission income from loans and guarantees solely from the services industry declined due to muted new business and intense competition and came to EUR 107 million (previous year: EUR 119 million). All other types of commission remained largely stable year-on-year.

Net gains/losses from financial instruments measured at fair value through profit or loss fell moderately versus the previous year, namely by EUR – 18 million to EUR 190 million (previous year: EUR 209 million). In particular, the measurement of derivative financial instruments that form part of economic hedges but cannot be included in hedge accounting exerted a negative effect. The result from hedge accounting also declined by EUR – 15 million to EUR – 20 million. In addition, the changes to measurement discounts for financial instruments, mainly credit valuation adjustments, contributed to the decline with EUR – 38 million. Items in the trading book led to a better result, which was however unable to make up for the aforementioned changes.

Net gains/losses from financial investments and net income/expenses from investments accounted for using the equity method increased sharply year on year by EUR 101 million to EUR 195 million (previous year: EUR 94 million). The contribution from securities improved sharply from EUR – 18 million to EUR 90 million as LBBW took advantage of the market opportunities being provided by volatile markets. In addition to positive contributions from the sale of bonds, this increase was driven by subsequent purchase price adjustments in connection with equity instruments sold in the previous year. The execution of the sale of cellent AG at the beginning of 2016 also yielded a net gain from the sale of equity investments. Moreover, net income/expenses from equity investments improved as a result of the buyback of shares in VISA Europe Limited by Visa Inc. in the United States in the 2nd quarter of 2016. All in all, the contribution from equity investments increased by EUR 51 million year on year. However, net income/expenses from investments accounted for using the equity method dropped sharply by EUR – 58 million to EUR 13 million.

Compared with the previous year, **other operating income** including net income/expenses from investment property fell by a total of EUR – 34 million to EUR 101 million. In contrast to the previous year in which provisions had been reversed, the current year was defined by net allocations to the provisions. On the other hand, net income/expenses from investment property improved after coming under strain in the previous year from the fair value measurement of individual investment properties.

At EUR – 1 814 million (previous year: EUR – 1 782 million), **administrative expenses** remained virtually at the previous year's level The marginal increase of EUR – 8 million to EUR – 1 036 million in staff costs was caused in particular by pay-scale adjustments of wages and salaries. By contrast, other administrative expenses increased moderately by EUR – 32 million to EUR – 688 million (previous year: EUR – 656 million). A large portion of the expenses was still connected to the restructuring of the IT architecture that started in 2014. There was a marked increase in the IT costs in particular in the course of the investment in a new core bank system that will be rolled out in 2017 and shall form the basis for increased digitalization and process optimization. Lower consulting expenses and building maintenance provided relief. Furthermore, amortization and write-downs of intangible assets and property and equipment fell by EUR 8 million to EUR – 89 million during the year under review (previous year: EUR – 98 million).

Under the guarantee shield of the State of Baden-Württemberg, LBBW continues to finance the special-purpose entity Sealink, which is not required to be consolidated within the Group. The State of Baden-Württemberg still offers a guarantee for certain loans to this special-purpose entity, for which a **guarantee commission** of EUR – 93 million was paid in 2016. The commission fell by EUR 28 million year or year in 2016 in line with the continuing drop in the volume of lending to Sealink.

Expenses for the bank levy and deposit guarantee system totaled EUR – 71 million in the 2016 financial year and were therefore only marginally lower than the expense of EUR – 73 million incurred in 2015. They include the contributions to the restructuring fund in accordance with European requirements (EU bank levy) and to the deposit guarantee system based on the EU Deposit Guarantee Act which came into effect on 3 July 2015. Under the new EU Deposit Guarantee Act, the Sparkassen-Finanzgruppe realigned its guarantee system in accordance with statutory requirements. Among other things, the system aims to increase the target volume of the guarantee mechanism to 0.8% of covered deposits (customer deposits up to EUR 100 000 per customer) by the year 2024. The German Financial Supervisory Authority (BaFin) has recognized the realigned guarantee system of the Sparkassen-Finanzgruppe as a bank-related guarantee system.

The impairment test at year-end 2016 of goodwill of EUR 379 million allocated to the Corporates segment was marked by the changed environment compared with the previous year. A lower estimate of the future potential for development is based mainly on the following factors. The ECB's adherence to an expansionary monetary policy with persistently low interest rate levels increasingly levels out the rating-related funding advantage for LBBW. This is clear above all in the intense competition in the banking markets, above all in the fiercely competitive SME business. The high levels of liquidity held by the companies also curb the demand for loans, thus limiting the earnings potential. The already very challenging regulatory environment will become even tighter in future with Basel IV, and, combined with the current burden of implementing the latest regulatory requirements, represents an ever-increasing challenge for the Bank. No more than moderate expectations of GDP growth in Germany are a contributory factor for the lower cash flow forecasts overall at year-end 2016 for the Corporates segment. This necessitated a complete **write-down** of the **goodwill** carried on the balance sheet that was related mainly to the acquisition of Sachsen LB. It must also be noted that the write-down does not burden the Group's capital ratios, as the goodwill was already taken into account as a deductible item within the scope of the capital calculation. The write-down does not impact either on the result under commercial law (HGB), as the goodwill is only accounted for within the scope of the consolidated accounts pursuant to IFRS.

Net income/expenses from restructuring increased by EUR – 44 million in the year under review to EUR – 87 million (previous year: EUR – 44 million). Because of the framework conditions for the banking industry and in addition to the modernization of the IT architecture, the business processes and product range were streamlined. The resulting necessary measures and investment in future-proofing LBBW incurred current expenses and the relevant issues relating to this were taken into account through the setting aside of provisions. Contrasting with this, partial amounts of existing provisions in connection with EU restructuring were reversed as the reason for these provisions had ceased to exist.

Taking into account the aforementioned non-recurring effect from the goodwill impairment, the remaining **consolidated profit/loss before tax** amounts to EUR 142 million (previous year: EUR 531 million). Please refer to the Notes for details regarding the presentation of individual segment results.

Tax expense totaling EUR – 131 million was incurred in the period under review, compared with EUR – 109 million in the previous year. Current income taxes of EUR – 81 million in the 2016 financial year were down slightly on the previous year's figure of EUR – 86 million. Income taxes pertaining to previous years fell to EUR 6 million (previous year: EUR 12 million). Deferred taxes worth EUR – 55 million (previous year: EUR – 35 million) also accrued. The EUR – 20 million increase over the previous year is largely attributable to legislative change to UK tax law.

Net consolidated profit after tax fell to EUR 11 million as a result of the goodwill impairment (previous year: EUR 422 million).

Net assets and financial position.

Assets	31 Dec. 2016 EUR million	31 Dec. 2015 EUR million	Change EUR million	Change in %
Cash and cash equivalents	13 532	1 167	12 364	> 100
Loans and advances to banks	39 288	30 245	9 043	29.9
Loans and advances to customers	111 232	108 785	2 446	2.2
Allowances for losses on loans and advances	– 828	– 1 128	300	– 26.6
Financial assets at fair value through profit or loss	50 175	64 765	– 14 590	– 22.5
Financial investments and shares in investments accounted for using the equity method	25 926	25 469	457	1.8
Portfolio hedge adjustment attributable to assets	764	569	196	34.4
Non-current assets and disposal groups held for sale	191	153	38	25.1
Intangible assets	249	541	– 292	– 54.0
Investment property	560	649	– 89	– 13.7
Property and equipment	514	670	– 156	– 23.3
Current income tax assets	116	114	2	1.9
Deferred income tax assets	1 040	1 027	13	1.3
Other assets	861	989	– 128	– 12.9
Total assets	**243 620**	**234 015**	**9 605**	**4.1**

Equity and liabilities	31 Dec. 2016 EUR million	31 Dec. 2015 EUR million	Change EUR million	in %
Deposits from banks	44 568	44 248	320	0.7
Deposits from customers	70 641	62 540	8 101	13.0
Securitized liabilities	34 355	29 424	4 932	16.8
Financial liabilities at fair value through profit or loss	69 846	74 063	– 4 217	– 5.7
Portfolio hedge adjustment attributable to liabilities	485	569	– 85	– 14.9
Provisions	3 734	3 401	333	9.8
Current income tax liabilities	57	62	– 5	– 7.7
Deferred income tax liabilities	31	27	4	15.8
Other liabilities	889	709	179	25.3
Subordinated capital	5 895	5 329	565	10.6
Equity	13 119	13 643	– 524	– 3.8
Share capital	3 484	3 484	0	0.0
Capital reserve	8 240	8 240	0	0.0
Retained earnings	999	1 062	– 64	– 6.0
Other income	348	413	– 65	– 15.7
Unappropriated profit/loss	10	425	– 415	– 97.7
Equity attributable to non-controlling interest	38	19	20	> 100
Total equity and liabilities	**243 620**	**234 015**	**9 605**	**4.1**
Guarantee and surety obligations	5 971	5 410	561	10.4
Irrevocable loan commitments	22 784	21 796	988	4.5
Business volume	**272 375**	**261 221**	**11 154**	**4.3**

Increase in consolidated total assets.

Compared with the previous year, total assets increased by EUR 9.6 billion or 4.1 % to EUR 243.6 billion at year-end 2016.

The volume of business of the LBBW Group rose in parallel by EUR 11.2 billion or 4.3 % to EUR 272.4 billion. In addition to higher total assets, this was also due to an increase in irrevocable loan commitments as well as guarantee and surety obligations.

This development was defined by an expansion of the cash reserves, and the portfolio of receivables from customers and banks. In particular, securities repurchase transactions with central counterparties and borrower's note loans with large regional customers contributed to this increase. The volume with large corporates developed favorably overall.

The development on the liabilities side was supported by the strategic expansion of the long-term funding basis for meeting current and future regulatory liquidity (LCR) and refinancing requirements (NSFR). As at 31 December 2016, LBBW had a liquidity coverage ratio of 110.4% and therefore significantly exceeded the minimum liquidity ratio of 100% that will be applicable after the end of the transitional phase from 1 January 2018 (minimum LCR from 1 January 2017: 80%). When the observation period ends in 2018, banks will likely have to report and comply with the net stable funding ratio thereafter.

Thanks to the good reputation LBBW enjoys as an issuer on the bond market as well as its placement strength, the Bank was successful in securing long-term funding on the capital market in 2016. During the year under review, LBBW issued among other things an unsecured benchmark bond in the amount of EUR 1.3 billion, which was subsequently increased by EUR 0.3 billion, one subordinated bond sized at EUR 0.5 billion and several large-volume mortgage-backed covered bonds (Hypothekenpfandbriefe). The issues met with strong demand among domestic and international investors, and were all significantly oversubscribed.

In the course of the strategic realignment of the capital markets business, new business for liquidity management purposes has been reported gradually in the non-trading portfolio since the second half of 2016, thus leading to shifts between individual balance-sheet items on the balance sheet dates of 31 December 2015 and 31 December 2016. In this context, the volume of the financial assets or liabilities measured at fair value through profit or loss, in particular, was reduced through money market transactions that had matured or ended. In contrast, there was an increase in the volume of loans and advances to customers and banks and deposits from customers and banks in the form of newly concluded overnight and term money transactions.

Lending.

Cash and cash equivalents came to EUR 13.5 billion as at 31 December 2016 and were EUR 12.4 billion above the previous year's figure. The increase was largely attributable to the increase in balances held with the central bank.

Loans and advances to banks rose sharply by EUR 9.0 billion, thus ending at a figure of EUR 39.3 billion. The volume of securities repurchase transactions increased by EUR 5.0 billion, especially due to the expansion of transactions with central counterparties and large international banks. New business with savings banks and the reinvestment of maturing money market transactions in the banking book led to a EUR 3.0 billion increase in public-sector loans.

Loans and advances to customers increased at the end of 2016 by EUR 2.4 billion to a volume of EUR 111.2 billion. Besides a EUR 1.0 billion increase in securities repurchase transactions, largely with central counterparties, the volume of borrower's note loans rose by EUR 0.9 billion, and overnight and term money by EUR 0.9 billion. The volume transacted with large corporates also developed positively.

Financial assets measured at fair value through profit or loss fell significantly by EUR – 14.6 billion to EUR 50.2 billion mainly because of falling trading assets. Maturing overnight money, term money and call money with domestic and international banks led to a EUR – 8.0 billion decline in other money market transactions. The volume of bonds and debentures held in the trading portfolio also fell by EUR – 5.7 billion, mainly through maturing of German Länder bonds. Debentures also lowered the trading portfolio by EUR – 0.9 billion.

Financial investments and shares in investments accounted for using the equity method increased slightly by EUR 0.5 billion to EUR 25.9 billion. The main reason for the increase was the EUR 3.0 billion expansion of the holdings of covered bonds and debentures from international banks. On the other hand, exposure especially to southern European public-sector entities was reduced by a further EUR – 1.4 billion. Within the scope of reducing the exposure to purpose entity Sealink during the year under review, the volume of GPBW GmbH & Co. KG bonds held in LBBW's portfolio declined by EUR – 1.2 billion. LBBW had acquired this as part of the risk shield for the loans extended by GPBW GmbH & Co. KG to the special purpose entity Sealink.

Intangible assets were reduced by EUR – 0.3 billion to EUR 0.2 billion. The decline is explained mainly by the write-down of goodwill in the balance sheet. The recognition of goodwill is attributable mainly to the timing of the acquisition of SachsenLB. The consequences of the ECB's expansive monetary policy combined with a historically low level of interest rates, challenging regulatory requirements and greater competitive pressure on lower demand for credit resulted in a decline in the cash flow forecasts for the Corporates segment carrying the goodwill. This necessitated a complete write-down of the remaining goodwill in the amount of EUR – 379 million.

Funding.

The portfolio of **deposits from banks** remained virtually constant compared to 31 December 2015, rising by EUR 0.3 billion to EUR 44.6 billion. The EUR – 5.4 billion decline in securities repurchase transactions equated roughly to the increase of EUR 5.1 billion in overnight and term money. The increase in overnight and term money was mainly attributable to the utilization of the Bundesbank's tender program as well as new business with international banks. In addition, current account claims were up by EUR 0.7 billion.

Deposits from customers were extended substantially, by EUR 8.1 billion to EUR 70.6 billion. Overnight and term money in particular increased noticeably by EUR 6.9 billion in connection with the realignment of the capital markets business. German federal states and public-sector entities increasingly resorted to LBBW for the purpose of investing their cash and cash equivalents. Funding with securities repurchase transactions increased by EUR 2.3 billion, while issued debentures fell by EUR – 0.8 billion.

The balance sheet item **securitized liabilities** increased significantly during the 2016 financial year, by EUR 4.9 billion to EUR 34.4 billion. The Bank was able to refinance itself on a long-term basis on the capital market in 2016 thanks to LBBW's good reputation as an issuer on the bond market. The issue of a EUR 1.5 billion benchmark bond and further large-volume debentures prompted the volume of other debentures to rise by EUR 3.0 billion. Similarly the issue of several mortgage-covered bonds in 2016 led to a net increase of EUR 2.3 billion in the volume of mortgage-backed covered bonds. Short-term funding via money market transactions was also increased by EUR 1.5 billion over the previous year. Contrary to this, the volume of public-sector covered bonds declined by a total of EUR – 1.9 billion due to maturing covered debentures.

In line with the item on the assets side, **liabilities measured at fair value through profit or loss** fell by EUR – 4.2 billion to EUR 69.8 billion, primarily as a result of the decline in trading liabilities. The volume of money market transactions fell by EUR – 7.3 billion, essentially due to maturities. The EUR – 2.1 billion change in the negative fair values from trading derivatives resulted in particular from maturing interest rate swaps. This contrasted with a EUR 4.4 billion increase in securitized liabilities, mainly due to the increase in certificates of deposit and commercial paper transactions by the New York branch.

LBBW increased its **subordinated capital** by EUR 0.6 billion to EUR 5.9 billion in the year under review, in order to strengthen its capital base further. The basis for this was mainly a large-volume subordinated bond sized at EUR 0.5 billion that was issued in October. The subordinated capital was also increased through several private placements.

Equity.

LBBW's **equity** was reduced by EUR - 0.5 billion from 31 December 2015 to EUR 13.1 billion, with unappropriated profit posting a significant decline. The reduction in the discount rate for pension provisions from 2.18% to 1.72% also led to actuarial losses, which lowered retained earnings by EUR - 0.2 billion, taking deferred taxes into account.

Financial position.

LBBW's funding strategy is determined by the Asset Liability Committee (ALCo). Here the Group focuses 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. LBBW was at all times able to obtain funding on the market on the requisite scale. The LiqV liquidity indicator is only to be determined at the level of the Bank and improved to 1.50 as at the reporting date of 31 December 2016 (previous year: 1.43).

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 should be taken within the scope of the internal control process, in a deliberate and controlled manner, and on the basis of the associated opportunities for income and growth potential.

The internal control process thus forms 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 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). It is determined through the definition of basic risk-strategy principles, strategic limits, the liquidity risk tolerance and the principles of risk management and observed in all business activities.

The basic risk-strategy principles reflect the conservative risk policy defined in the business strategy:

- Sustainable observance of risk-bearing capacity even under stress conditions
- Solvency and observance of liquidity risk tolerance at all times, including under stress conditions
- Sustainable compliance with and fulfillment of the regulatory minimum ratios

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 2017, 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 represent core principles for balancing opportunities and risks within LBBW. 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.

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 management.

Capital management at LBBW is designed to ensure solid capitalization within the LBBW Group. In order to guarantee adequate capital from various perspectives, the capital ratios and structures are analyzed both from an economic as well as a regulatory capital perspective. Capital management at LBBW is embedded in the integrated bank management, strategies, policies, monitoring mechanisms and the organizational structure of the LBBW Group.

The Board of Managing Directors of LBBW considers the risk management procedures in accordance with Article 435 (1e) CRR to be 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), by the statutory auditor and the Group Auditing division and 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. 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 capital and aggregate risk cover.

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), are carried out in the calculation of risk-bearing capacity (RBC) according to the so-called liquidation principle. Internal monitoring of this figure ensures the adequacy of the LBBW Group's economic capital resources.

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 income statement 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 are managed and limited in accordance with the quantitative and procedural rules defined in the liquidity risk tolerance.

The upper risk limit for economic capital (economic capital limit) 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. In addition, the economic capital limit is verified on the basis of target figures. 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).

In addition to the economic perspective, LBBW's capital management also includes the management of regulatory capital. Current compliance with the internal targets (which noticeably exceed the regulatory minimum requirements) is monitored using the regulatory report, while ensuring the long-term fulfillment within the scope of the regulatory and economic capital planning process as well as the ongoing monitoring process. In addition, compliance with the minimum regulatory requirements in case of adverse developments is ensured by an analysis of stress scenarios. 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 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 2016 financial year. The aggregate risk cover at year-end 2016 was virtually unchanged from the end of 2015. Subordinated capital maturities were compensated by new subordinated liabilities issues. At 44%, utilization of the aggregate risk cover was significantly lower compared to year-end 2015, due to the risk development. Furthermore, stress test resistance was maintained throughout the entire financial year.

LBBW Group – risk-bearing capacity.

EUR million	31 Dec. 2016 Absolute[1]	Utilization	31 Dec. 2015 Absolute[1]	Utilization
Aggregate risk cover	16 206	44 %	16 255	48 %
Economic capital limit[2]	12 800	56 %	12 800	61 %
Correlated total economic capital	7 111		7 813	
of which:				
interrisk correlations	– 422		– 435	
counterparty risk	3 899		3 837	
market price risk	1 659		2 009	
investment risk	47		134	
operational risk	716		775	
development risk	61		74	
real estate risk	186		205	
other risks[3]	965		1 214	

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

The economic capital has declined by a total of EUR – 0.7 billion since year-end 2015. Market price risk is calculated as part of the risk-bearing capacity on the basis of the maximum of VaR and long-term VaR. The latter is based on a longer observation period of five years. Accordingly, the decline in economic capital for the market price risk is attributable in particular to the shift in the observation period for the long-term VaR and the associated lower volatilities. The methodology for identifying business and reputation risks has been fundamentally revised. The decline in other risk is mainly due to this revised methodology. The lower investment risk results from the implementation of the Risk Management Group, which applies the transparency principle to material subsidiaries – i.e. companies whose risk potential is classified as material from a Group point of view. Accordingly, all material risks at Group level are quantified separately in the respective risk type for each of these subsidiaries, using estimation procedures if necessary. The slight increase in counterparty risk is mainly as a result of a methodological development, where the risk of a change in in the credit value adjustments was included in the risk calculation.

Opportunities.

The relevant aggregate risk cover (ARC) for calculating risk-bearing capacity is defined as the lowest ARC of the following twelve months. Opportunities therefore occur 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 may, 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
- Fund placement 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 Risk Committee comprises the board members with responsibility for financial markets/ international business, finance/controlling and risk management/compliance and auditing, in addition to divisional managers from, among other areas, Group Risk Control, Financial Controlling and Treasury. 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 Asset Liability Committee (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 Chairman of the Board of Managing Directors, the board remembers responsible for financial markets/international business, risk management/compliance and auditing, as well as the board member responsible for finance/controlling, in addition to specific divisional managers from Treasury, Group Risk Control, Financial Controlling and Finance, among other areas.

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 the Chairman of the Board of Managing Directors, the board members with responsibility for financial markets/international business, finance/controlling and risk management/compliance and auditing, as well as divisional heads from Finance, Group Risk Control, Treasury and Group Strategy/Legal, among other areas.

Processes of adjustment.

New types of trading and credit product at LBBW are subject to a New Product Process that ensures that 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 department 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 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. As in 2014, an EBA/ECB stress test was carried out again in 2016, as well as the annual Transparency Exercise, published on the EBA and LBBW homepage.

On 15 December 2016, the ECB also stated its supervisory priorities in 2017 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. However, new partial aspects, such as the preparations for Brexit, competition with non-banks/fintechs and outsourcing, will be added to the above.

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 regulations (CRR II/CRD V), which will be subject to negotiation as part of the trilogue between EU Commission, EU Parliament and EU Council. 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 are required to 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' executive 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.

EMIR.

In response to the crisis on the financial markets, at their summit in Pittsburgh in 2009 the G20 states approved a comprehensive reorganization of the market for derivatives traded over the counter (OTC derivatives). The changes envisaged are intended to bring about an improvement in market transparency, limit systemic risks and enhance protection against market abuse.

In the EU the G20 requirements were implemented when the »European Market Infrastructure Regulation« (EMIR) came into effect on 16 August 2012.

Detailed explanations were described in technical regulatory standards by the responsible market regulatory body, the European Securities and Markets Authority (ESMA), and approved by the EU bodies. LBBW met the requirements with respect to risk-mitigation techniques and the transaction register report on time.

The regulatory requirements of the margin requirements on non-centrally cleared OTC derivatives (bilateral margin requirement) were finally published in December 2016 and shall be applied in LBBW for the first time from March 2017 onwards.

The EU Commission initiated a review of EMIR as planned, three years after the regulation came into force. Specific changes to the previous regulatory standards are expected in Q1 2017. LBBW ensures the regulatory compliance of the expected implementation issues by adjusting systems and processes in various projects.

The risk declaration of the Board of Managing Directors in accordance with Article 435 (1f) CRR can be found in the section on the risk management systems in the Risk and Opportunity Report.

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 a 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 a 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 economic capital tied up for the individual risk types can be found in the section on the risk management systems/risk situation of the LBBW Group.

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 and reporting 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

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 for reporting purposes (exposure at default, EaD), 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. This determines the amount that will not be exceeded by losses with a probability (confidence level) defined by parameterizing the risk-bearing capacity within a time horizon of one year. LBBW uses a credit portfolio model based on the modeling of rating migration to calculate this value. The individual borrowers are assigned default and migration probabilities corresponding to their ratings. Correlations between borrowers can also be modeled and borrower, sector and country concentrations mapped. The credit portfolio model uses a Monte Carlo simulation approach to calculate risk. LBBW's loan portfolio model is subjected continuously to a comprehensive validation program that is independent of the model development. Should the analyses indicate significant model risks, these are made transparent in Group Risk Control and in the Risk Committee, so that the measures necessary to optimize the model can be initiated efficiently.

CVaR is used as the parameter for economic capital used for credit risks in the risk-bearing capacity analysis and in LBBW's risk management.

Risk concentration and stress tests.

Risk concentration is measured using the credit value-at-risk (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 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 risk management divisions. These are organized separately from the front office units, in line with the regulatory requirements. Clear responsibilities and appropriate experience and expertise are ensured in the risk management 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 both an overall limit and country-related limits, in addition to the country limit itself.
- 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 with high dependence of losses 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.
- Half-yearly in-depth sector report with detailed information on the sector situation, portfolio structure and the top 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 risk management units. This upper limit is taken into account for all risk-relevant transactions by a customer or borrower unit/group of connected clients (pursuant to CRR). 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 bans on business issued. 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 necessitate 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. 2016	Carrying amount	Basis of consolidation	Measurement	Other	Management approach
Cash and cash equivalents	13 532	– 7	– 9 073	0	4 451
Trading assets	46 648	317	32 695	38	79 699
Financial assets designated at fair value	750	– 3	– 121	0	626
Positive fair values from hedging derivatives	2 777	0	2 488	0	5 265
Financial investments (AfS)	20 270	1 488	– 942	0	20 816
Receivables	150 519	– 3 913	14 330	– 1 803	159 134
Financial investments (LaR)	5 423	– 5	20	0	5 438
Non-current assets and disposal groups held for sale	191	– 28	0	– 163	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. The net exposure also takes account of risk-mitigating effects. These include netting and collateral agreements, the hedging effect of credit derivatives or the inclusion of classic credit collateral such as real estate liens, financial collateral, guarantees or bonds.

Exposure to counterparty risks in 2016 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. 2016	31 Dec. 2015
Gross exposure	**324 667**	**319 179**
Netting/collateral	86 808	77 883
Credit derivatives (protection buy)	11 111	13 601
Classic credit collateral	44 252	44 031
Net exposure	**182 496**	**183 665**

As at the reporting date, gross exposure amounts to EUR 325 billion and is therefore roughly EUR 5 billion or 2 % higher than at the end of 2015. Because of the simultaneous increase in the risk-reducing effects from netting and collateral agreements, especially through securities lending and repurchase agreements, the increase is not reflected in the 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 2015.

Portfolio quality.

Net exposure	EUR million 31 Dec. 2016	in % 31 Dec. 2016	EUR million 31 Dec. 2015	in % 31 Dec. 2015
1(AAAA)	41 196	22.6 %	43 013	23.4 %
1(AAA) – 1(A–)	80 517	44.1 %	81 646	44.5 %
2 – 5	43 443	23.8 %	39 577	21.5 %
6 – 8	10 244	5.6 %	11 641	6.3 %
9 – 10	2 702	1.5 %	3 149	1.7 %
11 – 15	1 202	0.7 %	1 306	0.7 %
16 – 18 (default)[1]	1 181	0.6 %	1 898	1.0 %
Other	2 011	1.1 %	1 436	0.8 %
Total	**182 496**	**100.0 %**	**183 665**	**100.0 %**

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

The quality of the LBBW Group portfolio is good and has remained almost constant compared with 31 December 2015. The share of investment grade ratings (ratings 1(AAAA) to 5) increased slightly to 90.5 % (31 December 2015: 89.4 %) as a result of an increase of the net exposure in the rating cluster 2 – 5. The increase is based on new business and migration, particularly from rating clusters 1(AAA) – 1(A-) and 6 – 8. The top rating class 1(AAAA) particularly includes German non-central public-sector entities. The decline in the exposure to German federal states and the Federal Republic of Germany slightly reduced their portfolio share. The net exposure in the rating classes 6 – 15 (non-investment grade) was also lower compared with 31 December 2015. The portfolio share is 7.8 % (previous year: 8.8 %). The non-performing exposure was also reduced to 0.6 % of the total portfolio in line with the trend of the previous years. The decline is the result of numerous reductions in exposure (with disposals accounting for a substantial share) and recoveries. The higher share of non-rated transactions under »Other« is due in particular to the acquisition of a credit card portfolio.

Sectors.

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

At Group level, the CVaR is down slightly from the previous year. However, methodological changes made during the period under review resulted in marked shifts at sector level.

Sectors.

EUR million	Net exposure 31 Dec. 2016	CVaR 31 Dec. 2016	Default 31 Dec. 2016	Net exposure 31 Dec. 2015	CVaR 31 Dec. 2015	Default 31 Dec. 2015
Financials	**73 769**	**1 045**	**34**	**68 426**	**698**	**46**
of which transactions under specific state liability[1]	13 445	17	0	9 710	49	0
Companies	**61 711**	**1 670**	**830**	**60 572**	**1 853**	**1 299**
Automotive	11 411	411	88	11 061	404	101
Chemicals and pharmaceuticals	5 627	114	28	5 517	143	59
Retail and consumer goods	9 095	218	114	9 181	261	182
Industry and construction	15 311	377	261	14 324	456	343
of which construction	5 809	165	117	5 690	234	125
Telecommunications and media	3 187	69	63	2 767	68	53
Transport and logistics	4 252	112	40	3 555	125	103
Utilities and energy	8 888	278	167	10 142	280	372
of which utilities and disposal companies	3 632	115	5	4 331	139	45
of which renewable energies	2 681	89	108	2 871	86	217
Other	3 941	92	68	4 025	116	86
Real estate[2]	**9 677**	**406**	**247**	**10 293**	**630**	**458**
Commercial real estate (CRE)	6 354	304	216	7 357	509	384
Housing industry	3 323	102	31	2 936	122	74
Public sector	32 477	366	0	39 320	517	1
Private individuals	**4 862**	**127**	**69**	**5 054**	**139**	**95**
Total	**182 496**	**3 614**	**1 181**	**183 665**	**3 837**	**1 898**

1) This figure shows transactions with statutory guarantee (Gewährträgerhaftung) and transactions for risk minimization covered by a guarantee provided by the State of Baden Württemberg. It also includes central banks and banks with a state background.
2) The real estate main sector was newly introduced in the financial year. The prior-year amounts were adjusted accordingly.

Financials represent the largest of the five main sectors with net exposure of EUR 74 billion as at the reporting date. The increase of around EUR 5 billion compared with the end of 2015 is largely due to the higher volume of deposits held with central banks. This led to an increase in the transactions under specific state liability. The higher CVaR resulted from factors including a methodological adjustment to the risk mapping of central counterparties and from taking greater account of potential fluctuations in the fair value of derivatives.

Almost all sectors contribute to the EUR 1 billion increase in exposure in the corporates portfolio to EUR 62 billion. The utilities and disposal companies were the only sector to feature a sizeable decline in exposure. 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. Various issues, such as regulatory changes in drive technology or autonomous driving, are currently being pushed among manufacturers and suppliers in the automotive industry. These will lead to medium- to long-term shifts within the manufacturers and suppliers. For this reason, the automotive portfolio is also being continuously monitored in order to identify opportunities and risks at an early stage.

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. The importance of the real estate business for LBBW's loan portfolio is taken into account by the switch into the new real estate main sector. At EUR 10 billion, the net exposure is slightly below the previous year's level.

Net exposure to the public sector was reduced significantly compared with the previous year, by EUR 7 billion to EUR 32 billion. Exposure was reduced especially to individual German federal states and the Federal Republic of Germany. Thanks to the very good ratings of the German public sector, these portfolio changes have no appreciable effect on the CVaR. All in all, the CVaR is considerably lower in this segment as a result of methodological adjustments and a decline in the portfolio of loans to foreign public sector entities.

In case of private individuals net exposure and CVaR declined slightly. This portfolio has a particularly high level of granularity.

Regions.

The share of German business in the net exposure amounted to 69.1 %. The general breakdown by region is largely constant, even though the decline in exposure to the German public sector and a higher volume of deposits held with central banks as at the reporting date resulted in smaller regional shifts. 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[1] in %	Share 31 Dec. 2016	Share 31 Dec. 2015
Germany	69.1 %	71.3 %
Western Europe (excluding Germany)	19.0 %	19.3 %
North America	7.4 %	4.8 %
Asia/Pacific	1.4 %	1.4 %
Eastern Europe	0.8 %	1.0 %
Latin America	0.7 %	0.8 %
Africa	0.0 %	0.0 %
Other[2]	1.5 %	1.3 %
Total	**100.0 %**	**100.0 %**

1) In the course of standardizing the database, the regional representation is based on the home country. The prior-year amounts were adjusted accordingly.
2) Transactions not allocated to a particular country (e.g. transactions with supranational institutions) are summarized under »Other«.

The phase of political events with far-reaching economic consequences was reinforced during 2016. The »Brexit«-referendum in the UK in June was followed by the attempted coup in Turkey in July and, finally, the unforeseen (according to the opinion polls) election of Donald Trump as President of the United States in November 2016.

The political and economic escalation in Turkey in particular took center stage in terms of risk management. LBBW countered this by putting a cap on financing foreign trade. In addition, daily monitoring of the liquidity indicators was implemented including an alert threshold for the currency reserves. Brazil continues to be one of the countries for which limits concerning terms and products continue to apply. Although it no longer made the headlines after President Rousseff was removed from office, LBBW still sees no resolution of the underlying problems.

Southern neighbor Mexico came into the line of fire during the US presidential election. Donald Trump's election victory is likely to cause economic difficulties for the country. However, due to the extremely low uncovered exposure to Mexico, there is no acute need for LBBW to take action here.

Political uncertainties have continued to build up further in the European Union too. LBBW has analyzed the potential effects of the UK's targeted »hard Brexit« on its loan portfolio and, based on today's evaluation and findings, concludes they will be manageable. New risks to the continued existence of the euro area arise from the difficult situation of the Italian banking system and the upcoming elections in the Netherlands and France. LBBW's exposure to Italian banks was reduced significantly in the course of its strategy of reducing risk positions. The same applies to its exposure to some southern European countries for which the restrictive business policy continues at present. Further developments will be monitored closely in LBBW so that measures for reducing risk can be taken promptly if needed.

Size classes.

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

Size classes.

Net exposure	Number 31 Dec. 2016	Net exposure in % 31 Dec. 2016	Number 31 Dec. 2015	Net exposure in % 31 Dec. 2015
up to EUR 10 million	761 364	12.0%	663 172	12.1%
up to EUR 50 million	1 140	13.9%	1 110	13.5%
up to EUR 100 million	219	8.8%	210	8.2%
up to EUR 500 million	268	33.1%	257	32.9%
up to EUR 1 billion	36	14.2%	29	11.3%
over EUR 1 billion	14	18.0%	18	22.0%
Total	**763 041**	**100.0%**	**664 796**	**100.0%**

The size classes up to a net exposure of EUR 100 million account for 35% of the net exposure (previous year 34%). The large number of customers is due here in particular to the retail portfolio. As a result of the aforementioned acquisition of a credit card portfolio, the number of customers in particular in the size class of net exposure up to EUR 10 million increased during the financial year.

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 net exposures of more than EUR 1 billion was reduced on balance compared to the previous year, from 18 to 14 names, with their share of the portfolio accordingly falling by four percentage points to 18%. The decline impacts in particular on public-sector bodies. As at the reporting date of 31 December 2016, public-sector entities (particularly German local authorities) continue to dominate in this size class with a share of 49%. Financials account for a further 33%, while the remaining 18% are spread among corporates with exclusively very good to good ratings (lowest rating class 2). The large exposures will continue to be monitored closely in terms of the management of cluster risks.

Opportunities.

LBBW's core business activity involves assuming counterparty risks. 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.

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.

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 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 conventional 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 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. Due to regulatory requirements, a longer monitoring period of five years is taken with the long-term VaR in order to allow for more volatile market phases as well. Market price risk for the trading and banking book are calculated with the same method.

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 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 ABS 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. A premium is added when calculating the economic capital for the credit spread risk from tradable loans.

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 synthetic as well as historical market movements with a focus on altering specific movement of market price data i.e. curve trends 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

1) Trading book excluding funds that cannot be represented transparently.

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 indicator. The results 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 past 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 risk-bearing capacity. 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.

Product implementation was refined in the model in 2016. In addition, changing market conditions were taken into account in the modeling.

Validation of the risk model.

LBBW's 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 Group Risk Control division by the risk model validation organizational unit, which is independent from the model development. The analyses are conducted on the basis of the materiality of the model risks at regular intervals (at least annually) and on an ad hoc basis in the case of significant structural changes being made in the model concept, on the market or to 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 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 results, 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, these are made transparent for all players integrated in the market risk management process, so that the necessary model optimization measures can be implemented efficiently.

Risk monitoring and reporting.

The utilization of limits and compliance with the detailed risk strategy among other things defined in the portfolio descriptions, are monitored by the relevant persons with portfolio responsibilities 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, concentration risk, economic capital and monitoring of the economic capital limit.

Risk management.

The strategic framework for quantitative market price risk management in the LBBW Group is set by the Board of Managing Directors 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 cover. The loss-warning triggers at divisional and/or segment level are fixed by the Board of Managing Directors at least once a year allowing for risk tolerance. Distribution among the portfolios below this level is effected by the responsible person in Trading.

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 risks, appropriate cushions or reserves are formed.

Differentiated VaR portfolio limits are associated 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 Financial Markets/International Business, the Credit Investment Portfolio division as well as the subsidiaries. The persons responsible for managing market price risks in the LBBW Group are defined via the escalation policy.

Operational controlling (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.

Internal transactions are concluded between the trading units, which are included in the calculations of market price risk for detailed risk management.

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

Risk situation of the LBBW Group.

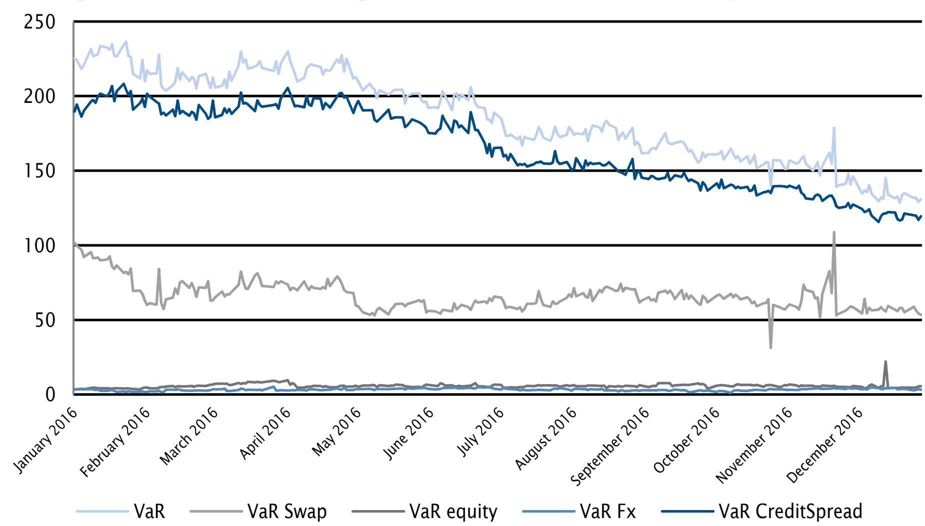
Development of market price risks.

Exposure to market price risks in 2016 was always in accordance with the risk-bearing capacity of the LBBW Group. The risk limit was not exceeded in 2016 for the individual Group entities either. The loss warning trigger was not breached for LBBW Group, the banking and the trading book in 2016.

LBBW's market price risks are generally characterized by interest rate risk and the embedded credit spread risks. Here the overall risk is dominated by the positions in the banking book, which comprises largely the Treasury portfolio (interest-rate and liquidity management as well as cover pool). The basis risks in the interest area between individual European sovereign or financial curves and the swap curve, as well as the exposure to credit spreads including the risks from fixed-income securities and credit derivatives, 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.

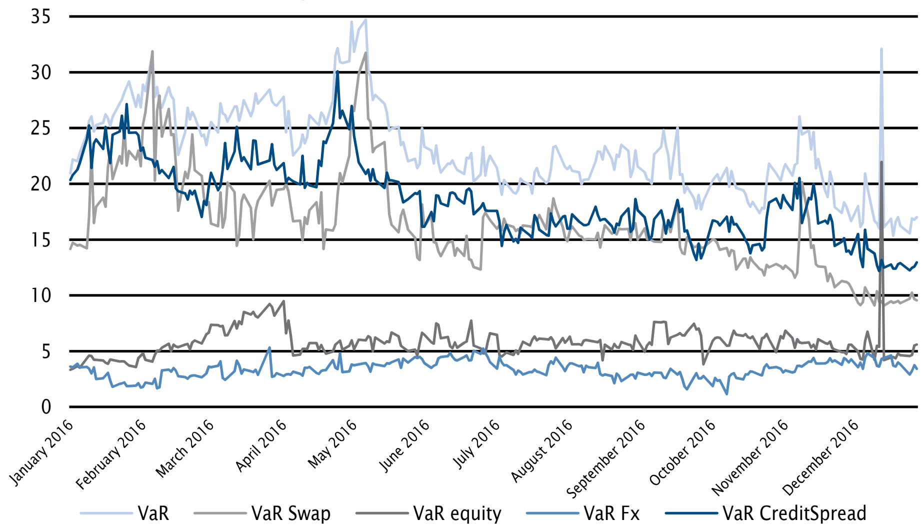
EUR million	Average	Maximum	Minimum	30 Dec. 2016[1)]	30 Dec. 2015
LBBW Group	**186**	**236**	**128**	**131**	**228**
Swap risk	66	109	31	53	99
Credit spread risk	165	208	116	120	189
Equity risks	6	22	3	6	3
Currency risks[2)]	3	5	1	3	4

1) The last reporting date in the 2016 financial year was 30 December 2016.
2) Including commodity risks.

The VaR of the LBBW Group decreased in 2016. The credit spread risk was reduced through improved synchronization of the market data download times.

For the trading book the VaR developed as follows in 2016:

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



VaR 99%/10 days.

EUR million	Average	Maximum	Minimum	30 Dec. 2016[1]	30 Dec. 2015
LBBW (Bank) trading book	**23**	**35**	**15**	**17**	**23**
Swap risk	16	32	9	10	14
Credit spread risk	19	30	12	13	21
Equity risks	6	22	3	6	3
Currency risks	3	5	1	3	4

1) The last reporting date in the 2016 financial year was 30 December 2016.

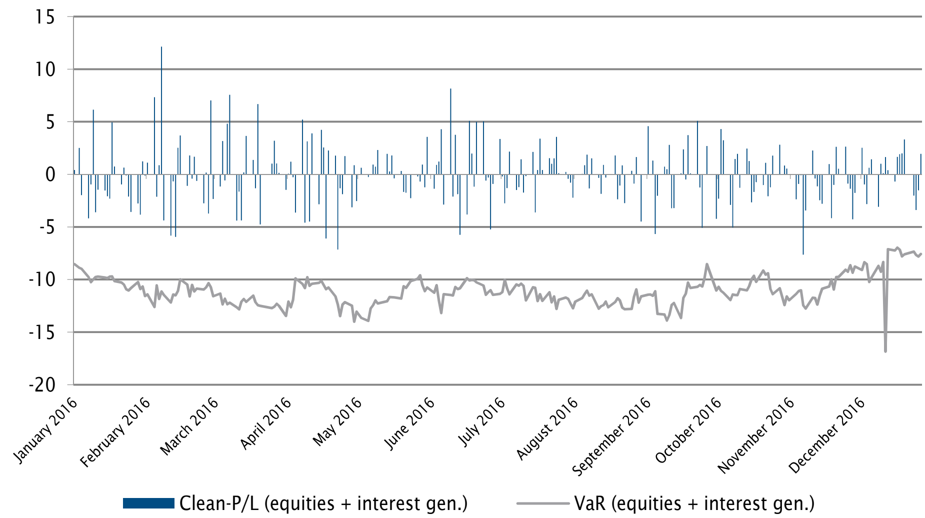
The chart shows a temporary increase in December 2016 in equity risks due to the market levels in connection with the strike price for options with a very short remaining time to maturity.

The LBBW trading book contains the positions of the Financial Markets segment and of Treasury, which are used for short-term liquidity management. The risk has declined compared to the previous year.

Backtesting result.

Clean backtesting CRR portfolio for the period 5 Jan. – 30 Dec. 2016 in EUR million.

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

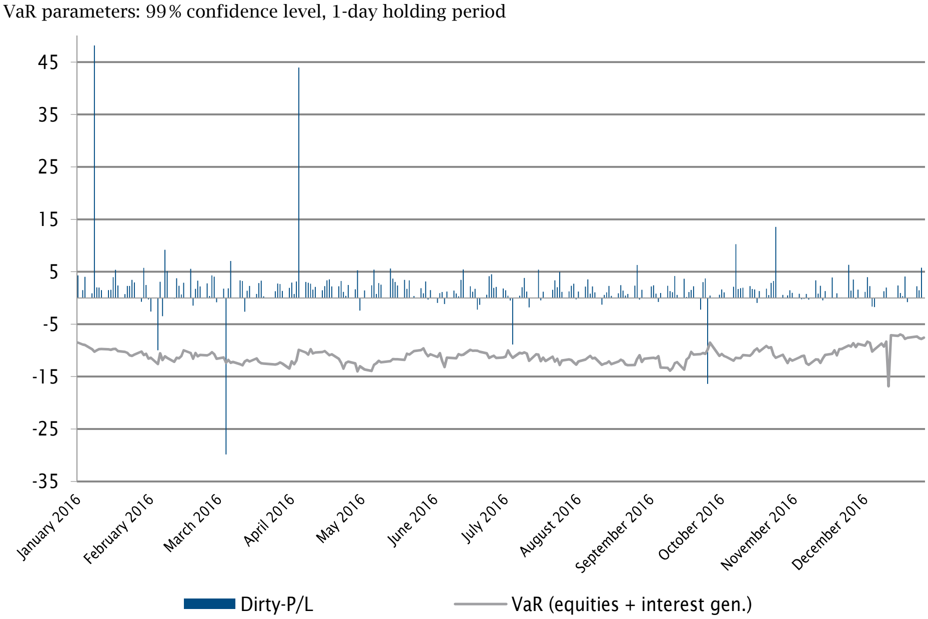


Up to and including the last reporting date of 30 December 2016, the internal risk model shows no outliers for the Clean P/L for the preceding 250 trading days in the CRR portfolio.

Due to strong movements on the market (widening of bond spreads after the Brexit referendum), one outlier was recorded for the last 250 trading days for both the LBBW Group and the trading book. No outlier was recorded for the banking book.

Dirty backtesting CRR portfolio for the period 5 Jan. – 30 Dec. 2016 in EUR million.

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



On the basis of the Dirty P/L two outliers were recorded for 2016 for the CRR-relevant portfolio and three for the trading book. The outliers were each caused by an adaptation to the credit valuation adjustments that are calculated every month. No conclusions can therefore be drawn in terms of inadequate forecasting quality in the internal model.

No outliers were recorded for the LBBW Group and the banking book.

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.

The stress test result for the LBBW Group in 2016 remained on the previous year level due to a changed adverse case scenario. The new scenario represents a widening of the credit spreads between 30 and 1 500 basis points, depending on the rating. The stress test result would have been lower had there been no change in scenario. The stress test results have declined for the banking and trading book; in both portfolios the same scenario as for the Group is relevant. The decline in the banking book was less due to a scenario change compared with 2015. The scenario for the trading book is unchanged from 2015.

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 2016.

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 30 December 2016 the market liquidity risk calculated using this model stood at EUR 295 million and had decreased by EUR 13 million in the course of the financial year.

Opportunities.

The portfolios of the LBBW Group depend to a considerable extent on market 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 effect on various portfolios. Risks but also opportunities can arise, depending on the positioning or orientation of the portfolio.

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	▪ Calculation of funding requirements and funding potential ▪ Quantification of all material call risks ▪ Monitoring of intraday liquidity ▪ Liquidity stress testing ▪ Assessment of structural liquidity ▪ Analysis of the investor base for possible concentrations
Risk monitoring and reporting	▪ Detailed daily reports on funding requirements (deterministic cash flow) per location and currency and quantification of liquidity reserves ▪ At least monthly reports on funding requirements (including call-risks) and funding potential of the Group ▪ Monthly reports on all aspects of the liquidity and funding risk in the Risk Committee and ALCO
Risk management	▪ Liquidity risk tolerance specifications in the form of limits for maximum funding requirements and survival times ▪ Defined escalation routes in the event of a breach of the specifications ▪ Management of the asset and equity/liabilities side of the balance sheet via funds transfer pricing

Risk measurement.

The risk of not having sufficient funds available at all times is not an earnings risk. Hence, it cannot be quantified or analyzed appropriately as value-at-risk by calculating a potential financial loss. It is therefore managed in LBBW using quantitative requirements and limits which have been established by the Board of Managing Directors in accordance with liquidity risk tolerance.

Determining the liquidity risk position involves, among other factors:

- Monitoring liquidity gaps (funding requirements based on net maturities from the business portfolio) in all currencies for LBBW (Bank) on a daily basis and twice a week for the LBBW Group.
- Calculating the potential funding available from central bank on a daily basis.
- 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, analyzing and daily quantifying of all material call risks.
- Conducting a five-day stress test on a daily basis as well as calculating stress tests on a monthly basis and as required. Ongoing review and adjustment of assumptions and parameters used, if necessary.
- Calculating key figures on intraday liquidity.

Liquidity risk tolerance is largely 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 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.
- Monitoring the daily cash flows in the ECB account with regard to major cash flows 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 As part of the overall risk report, 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 to the Risk Committee. Various 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 – in detail and are distributed 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. In case of updates, the Risk Committee validates the methods once a year.

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 2016, 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).

Treasury is responsible for securing intraday liquidity in trading. It plans daily payments and calculates liquidity requirements up to the end of the day, 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 2016. 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 2016, the funding requirements and the counterbalancing capacity were as follows:

Overview of funding requirements and counterbalancing capacity.

EUR billion	3 months		12 months	
	31 Dec. 2016	31 Dec. 2015	31 Dec. 2016	31 Dec. 2015
Funding requirements from the business portfolio (deterministic cash flow)	6.7	17.0	11.0	14.0
Funding requirements from material call risks (stochastic cash flow)	14.4	14.7	31.7	30.8
Funding potential from free liquidity reserves	19.7	22.0	27.0	28.5
Funding potential in the market	38.1	37.8	53.8	45.7

Limits and other requirements specified by the senior management in accordance with LBBW's liquidity risk tolerance were observed at all times. This comprises limits for the maximum funding requirements based on maturities from the business portfolio, guidelines on their cover through funding potential and requirements concerning the adherence to different stress scenarios. The funding potential was adequate to compensate for any short-term, substantial liquidity outflows.

Results of the economic stress scenarios.

EUR billion	Funding needs (3 months)		Funding counterbalancing capacity (3 months)	
	31 Dec. 2016	31 Dec. 2015	31 Dec. 2016	31 Dec. 2015
Rating downgrade scenario	24.5	33.5	39.9	41.3
Financial market crisis scenario	24.9	34.1	49.8	50.8
Combined scenario of market crisis with downgrade	24.8	34.1	46.0	47.0

The targeted stress resistance was met throughout 2016. 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.

The prescribed minimum value of 70% for the European indicator for short-term liquidity »Liquidity Coverage Ratio (LCR)« was observed at all times in 2016. At 110%, it was exceeded significantly as at year-end 2016 (31 December 2015: 82%). This also applies to the requirements of the standard approach of the Liquidity Regulation (LiqV). At 1.50 as at 31 December 2016, it also clearly exceeded the requirement of 1.0 (31 December 2015: 1.43).

Opportunities.

We believe the LBBW Group's liquidity situation will be comfortable in 2017 as well. LBBW is offered more funds on the money and capital markets than currently required to fund the Group. The broad-based and well-diversified funding basis would make it possible for LBBW to raise much more in terms of funding resources. The ECB continues to pursue an expansionary monetary policy in 2017, thus providing the money and capital markets with ample liquidity. Investors remain very interested in the LBBW Group's funding products. Thus there are no discernible restrictions on the funding side for the future performance of the LBBW Group.

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 requirements were met at all times in 2016. The risk management system is reviewed at least annually.

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 parameters: strategy and rules and regulations ▪ Organizational model: roles and responsibilities ▪ Risk monitoring: OpRisk Controlling methods and instruments ▪ Internal reporting (quarterly to the Risk Committee, monthly to the Internal Risk Committee, ad-hoc reporting) ▪ 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 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 internal economic management.

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.

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 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 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. In addition to the methods and instruments described, the central link-up point is the functional organizational model, which comprehensively describes the roles and responsibilities of those involved in the process. In this context, the local operational risk managers play a very important role. They support division management and managing directors in the use of operational risk controlling tools and ensure quality, completeness and timely processing. At the same time, operational risk managers serve as contacts and multipliers for their respective employees on the topic of operational risks, and are in close contact with LBBW's centralized OpRisk Controlling unit.

OpRisk measure management plays a key role in managing operational risks. 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 decentrally. 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 Group Strategy/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.

Exposure to operational risks in 2016 was 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 the legal departments (as part of the Group Strategy/Legal division) of LBBW. These carry out a legal advisory role for the Group. In addition, their responsibilities include early identification of legal risks in business units and central divisions in cooperation with the latter, and efforts to limit these in a suitable manner. The legal departments have 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 departments supervise and actively shape these processes.

Furthermore, the legal departments monitor 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 departments are 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. Although the new rulings by the German Federal Court of Justice (Bundesgerichtshof – BGH) concerning derivative products have paved the way since 2015 for further standardization of the corresponding legislation, these have not yet been finalized.

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 these 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, IT security is also becoming increasingly important. 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 Group as a permanent, integrated process and is oriented on the risk management and controlling process 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_Katalog and experts) are evaluated and the information obtained is copied into the control cycle of risk management and controlling process in order to get as complete a picture as possible of the Bank's IT situation.

Threats and risks resulting are combated continuously using new 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, allowing us to combat a threatening situation in good time.

By outsourcing its IT production operations and 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. 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 (e.g. Information Technology, Compliance, Auditing, BCM). In addition, close cooperation with the local OpRisk managers and other persons in charge of interfaces regularly standardizes the processes and leverages synergies. It also provides a uniform and holistic view of the risk situation. The extension of risk indicators and extensive reporting make it possible to react more rapidly 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 specialized 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 material 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 and are therefore an integral part of 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 specialized 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 2016 financial year: this included the sale of Bietigheimer Wohnungsprivatisierungsgesellschaft mbH, cellent AG and East Portfolio s.r.o. The silent partners' contribution in Sparkasse Bodensee 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-à-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 (impending) 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 might have a long-term negative impact on LBBW's reputation are avoided. The sustainability policy formulated in the LBBW Group must be observed. The LBBW Group acts in the best 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. Business risk may be caused by 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. If LBBW does not adapt to changed conditions in a timely manner, these may have a negative effect on business results.

In order to create transparency for and minimize 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. If interest rates rise, this provides LBBW with the opportunity of a fall in pension provisions and correspondingly lower pension risks.

The pension risk is currently accepted and passively monitored. At the moment the interest-rate component, for example, is not hedged. 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 pension risks are quantified by means of an expert-based approximation procedure and scenario-based investigations.

The model risk is the risk of potential losses that can arise as a result of decisions that are based on the result of models. 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). Appropriate precautions are currently proposed for significant model risks (risk premiums, buffers, problem-specific set limits).

A comprehensive, integrated process for identifying, assessing, controlling, monitoring and communicating model risks is being developed at present. This will supplement existing processes that are especially focused on risk and evaluation models.

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. The central Group Risk Control division 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 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 value growth properties 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 should 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 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 letting 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 LBBW Group's Group risk strategy or that 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 in selected individual cases. 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 f.) 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 applications 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 must also be ensured 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 performance and risk 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 strategic units are involved in preparing the individual 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 individual 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.

In particular, the dual-control principle, the separation of functions and the assignment of authorities in line with existing decision-making regulations ought to be mentioned; these have also been included in the regulations met by the respective Group companies.

Control functions are exercised within each competent department throughout the Group. The control targets defined at LBBW map the identified risks in their entirety.

Both the individual 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 specialized 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 reporting packages 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 specialized departments 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 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 specialized 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.

The Group Accounting group 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 data consistency of the information provided by the Group companies is inspected again by checking rules implemented and comprehensive validation. The notes to the consolidated financial statements are also prepared using standardized software. The Group Accounting group 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 also 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 specialized divisions for essential accounting-relevant processes. An ICS records office has been established in the Finance division to guarantee the central monitoring ability of the accounting-relevant ICS.

The effectiveness and suitability of the accounting-related internal control system and the risk management system are regularly monitored. 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. Adequate 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 signs for 2017 make a clear interpretation difficult. Much will depend on the course of economic policy the new administration in the USA will take. If trade barriers are put in place between the USA and the EU on the one hand and China on the other, this could potentially burden global trade after many years of strong growth – with the exception of the financial crisis in 2008/09. This would also have negative repercussions for Germany. Given that the UK's withdrawal from the EU could potentially damage trade relations with the fifth-largest market, the German economy will likely cool somewhat. We anticipate growth of only 1.5% (calendar adjusted); due to the greater number of bank holidays – for example, Reformation Day 2017 is a one-off holiday in all federal states due to the 500th anniversary – actual GDP growth would be as low as 1.2%. Weaker momentum in Germany will feed through to the euro area, where we expect GDP growth to shrink from 1.7% to 1.3%. In contrast, the economy in the USA is expected to pick up considerably. We assume the new administration's measures, including tax cuts and higher government spending, will take effect quickly and push up GDP growth from 1.6% to 2.5%. China seems to be heading towards a gradual slowdown in growth, from 6.7% to 6.5%. Inflation is expected to pick up slightly initially and the rate of inflation in Germany could well exceed the 2% mark again especially in the first half of the year. This is not expected in the euro area, where inflation will likely fall again somewhat in the course of the year. LBBW expects an inflation rate of 1.7% for Germany and of 1.5% for the euro area on an annual average.

The ECB is likely to adopt a wait-and-see attitude for now. The course has been set for monetary policy with the decisions taken in December 2016 to extend the duration of the asset purchase program until autumn 2017. The ECB would need serious reasons such as financial market turbulence or an unexpectedly sharp rise in inflation for it to deviate from this course. It will probably agree to reduce the monthly purchase volume again towards the end of the year but leave key rates untouched for the time being. We should see continued tightening of monetary policy in the USA. With two interest-rate hikes at mid-year and towards the end of 2017, the range should be between 1.00% and 1.25%.

We can expect a moderate increase in capital market yields in this environment. According to LBBW's forecast, 10-year Bunds should yield around 0.60% at the end of 2017. This is compared with 2.75% for US Treasuries with a 10-year remaining term to maturity. The US dollar is likely to benefit further from the interest rate advantage in the US and appreciate moderately up to USD 1.05 per EUR by the end of 2017; parity could well be reached or even undershot for a time. In the setting of rising interest rates and moderate growth, the upside trend for equities will probably continue but only at a slower pace. The DAX should reach 12 250 points at year-end, while the Dow Jones, which exceeded 20 000 points at the start of 2017 should end the year at 20 250.

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 2017. On the other hand, the robust underlying economic conditions in Germany will likely continue to support the industry. The prospect of moderately higher interest rates in the USA also comes into play. 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.

The reform of the regulatory framework for the banking sector has advanced quite far meanwhile but is yet to be concluded. The Basel capital requirements, for instance, have not been revised entirely yet. The final configuration of the restructuring and wind-down rules, and agreement on a common European deposit insurance scheme (the third pillar of the European banking union) are still outstanding, too. 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 the technological change that is likely to accelerate even more. 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 competetive 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 2016. It is assumed that interest rates in the euro area will remain low and, in some cases, even negative during the forecasting period. Stable, albeit slightly weaker, economic development is assumed for Germany and the eurozone. Economic growth in Germany is expected to be slightly higher than in the eurozone. Besides increasing requirements vis-a-vis capital and liquidity from even tighter regulatory provisions, LBBW believes the regulation of its business activities, e.g. to enhance market transparency and consumer protection (conduct regulation), will exert even greater influence over the business model. The continuing digitalization will require more flexibility with regard to changes in the underlying conditions.

Outlook for LBBW.

In the 2017 financial year, LBBW will continue to focus on its regional, customer-driven business model and push ahead with the future initiatives that have already been launched successfully. In addition to establishing and expanding sustained customer relationships, the focus will be on further efficiency improvements and on adapting to changing market and customer requirements. The forthcoming change to the core banking system creates the basis for the digitalization of the business processes. However, it involves the corresponding investments. The optimization projects help the Bank to expand the business further, despite the challenges presented by the low interest rate environment, regulation, digitalization and geopolitical risks. All in all, with its customer-oriented business model, its solid capitalization and appropriate risk profile, LBBW sees itself as being well-positioned to meet the challenges it faces in the future.

The most significant financial performance indicators for LBBW will likely develop as follows in the 2017 financial year at the Group level, in comparison with the previous year:

As in the previous year, LBBW expects continued growth in the customer business in 2017 and consequently a noticeable increase in risk weighted assets under CRR/CRD IV. LBBW therefore expects the common equity Tier 1 capital ratio and total capital ratio (both fully loaded) to decline perceptibly in 2017.

Regardless of this, 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, valid from 2017 onwards, that was revised and established as part of the SREP (Supervisory Review and Evaluation Process) and which totals 8.09% is also expected to be considerably exceeded at the end of 2017. Included in this ratio are 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 systemically relevant financial institutions elsewhere, as well as the common equity Tier 1 capital to be held as countercyclical capital buffer in accordance with Section 10d KWG. Significant excess capital should also be held in line with ECB Banking Supervision expectations concerning the maintenance of supplementary CET1 capital within the scope of a capital recommendation (pillar 2 guidance). In addition to the regulatory capital requirements, LBBW also focuses on economic capital management. With the utilization of the aggregate risk cover expected to be moderately higher than in the previous year (2016: 43.9%), LBBW's risk-bearing capacity thus remains very comfortable in 2017 too, and the goal of ensuring solid capitalization at all times should be met.

Total assets climbed to EUR 243.6 billion in 2016 as a result of a higher volume of liquid funds held with central banks as well as an increase in loans and advances to banks and customers, including in connection with the growth in the operating segments. LBBW expects the further expansion of the customer business to lead to a marginal increase in consolidated total assets in 2017. The leverage ratio, a regulatory figure independent of risk, is likely to increase moderately year on year by the end of 2017 (2016: 4.6%) and thus remain considerably above the minimum 3% stipulated by the Basel Committee. The liquidity coverage ratio which has been gradually introduced serves to evaluate the short-term liquidity risk and is at the focus of LBBW's management. By year-end 2017 the ratio should be far above the current minimum requirement of 80%.

In 2016, which was once again characterized by challenging general conditions, LBBW reported a positive consolidated profit before tax of EUR 142 million that was nonetheless lower than anticipated. Excluding the goodwill impairment that was not planned for the year under review, consolidated profit before tax would have been in line with the forecast. Based on a consolidated profit before tax of EUR 142 million in 2016, LBBW expects a considerable increase for 2017. Allowances for losses on loans and advances last year remained well below LBBW's conservative estimates and were at an extremely low level, which reflects the good quality of the loan portfolio. Based on this historically low level, LBBW forecasts on conservative expectations a marked rise in allowances for losses on loans and advances in 2017, which are likely to remain below the long-term average.

Despite further forward-looking investment, particularly in the IT infrastructure and from the implementation of regulatory requirements, administrative expenses for 2017 should be only marginally higher than in the previous year. Due to targeted further growth and the accompanying earnings growth, the cost/income ratio in 2017 should remain at the previous year's level. The return on equity should rise markedly year-on-year on account of the expected earnings performance.

Material risks for LBBW's planned performance in the 2017 financial year include on the one hand ongoing geopolitical uncertainties, above all the specific terms of the United Kingdom's exit from the EU, the as yet unclear course of the new US administration and the elections pending in Europe. This could also impact on LBBW's customers and possibly lead to higher-than-planned allowances for losses on loans and advances. On the other, the unexpected development of market parameters, such as the longer-than-anticipated persistence of low interest rates with negative rates in part, could lead to negative deviations from the plan. In addition, increasing competitive pressure and potential changes to the market and competitive structures through digitalization could have a burdening effect. Tighter regulatory and legal provisions could also impact on the forecasted performance of LBBW's costs and earnings. In this context, the effects that the regulation of business operations e.g. for enhancing market transparency and consumer protection (conduct regulation) could have on the business model and hence on earnings are worth mentioning, in particular. 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.

However, the 2017 financial year also presents LBBW with opportunities that could lead to a higher-than-planned profit. Future investment and the ongoing digitalization could have a positive effect on profit through quicker-than expected improvements in efficiency or quicker 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 too. Better-than-expected economic growth could also benefit LBBW's corporate customers and this could lead to lower-than-planned allowances for losses on loans and advances as well as risk weighted assets.

LBBW is forecasting the following developments for the segments in the 2017 financial year. While the operating segments should, all told, generate a substantially positive earnings contribution, the credit investment segment is expected to record an improved but still negative result.

The Corporates segment's earnings in 2016 were clearly defined by the impairment of goodwill attributable to the segment. In addition, future investments in which restructuring provisions were created, also represented a burden. On this basis, considerably higher profit before tax is expected for 2017 compared with the previous year. LBBW is planning to expand the lending business, which is associated with a perceptible increase in balance sheet assets and risk weighted assets in accordance with CRR/CRD IV. Further investments in the IT infrastructure and strain from implementing regulatory requirements will probably lead to a moderate increase in administrative expenses and therefore in the segment's cost/income ratio.

Despite the further expansion of the lending business, LBBW does not expect any notable change in the balance sheet assets and the risk weighted assets pursuant to CRR/CRD IV in the Retail/Savings Banks segment. Profit before tax in 2017 is expected to be far above 2016, albeit negative once again. Administrative expenses will be characterized in 2017 by the switch to the new core banking system and the strategic realignment of the retail banking business, and will therefore be slightly above the previous year's figure. In contrast, positive growth momentum should be evident already, especially from the securities and deposit business, and from asset management, which should lead to, among other things, a slight increase in net fee and commission income. The segment's cost/income ratio should therefore be improved slightly.

The Capital Markets Business segment corresponds largely to the former Financial Markets segment. The treasury activities, among other things, were reallocated to this segment. LBBW is projecting a perceptible year-on-year increase in profit before tax in the Capital Markets Business segment for the 2017 financial year. Thanks to the segment's stringent orientation, revenues in 2017 should report a perceptible increase. In contrast, investments are necessary, above all in relation to the IT infrastructure and the implementation of regulatory requirements. Nevertheless, administrative expenses should remain at the previous year's level. LBBW expects the cost/income ratio to improve slightly because of the likelihood of a significantly positive revenue performance across all customer groups. In response to the growth in the customer business, LBBW plans a substantially increase of risk weighted assets pursuant to CRR/CRD IV in 2017, while the balance sheet assets are unlikely to change to any noticeable degree.

The Credit Investment segment is expected to report a noticeable improved, albeit still negative profit before tax, once again in the 2017 financial year. The segment should benefit from another measureable fall in the guarantee commission. The balance sheet assets should fall slightly on the back of the planned further wind-down of the portfolio.

In its annual financial statements pursuant to German GAAP (HGB), LBBW (Bank) is projecting net profit for the year before tax for the 2017 financial year that is in line with the previous year. Essentially, this development is in line with the net consolidated profit before tax. The Bank also anticipates a higher interest-related strain from allocations to pension provisions.

With its customer-oriented business model and solid capitalization and appropriate risk profile, LBBW is well positioned in what remains an extremely challenging market setting. LBBW addresses the existing challenges comprising geopolitical risks, the persistently low interest rate setting, ever tighter regulatory requirements and ongoing digitalization with optimization projects and by constantly reviewing and adjusting the business model, allowing it to further expand its business regardless of the difficult general conditions. 2017 will be characterized above all by the change in the core banking system, whereby LBBW is creating the basis for the digitalization of its business processes. This will benefit not least its broad customer base, which is principally 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 2016.

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.

The challenging general conditions of the previous year also defined the business development of LBBW (Bank) in 2016, where the determining factors were a difficult market environment with persistently low interest rates and intense competition within the banking industry, especially the fiercely competitive SME business, advancing digitalization with an increased need for investment and a further rise in regulatory requirements. Thanks to its good positioning on the regional core markets and the positive performance of the European economy, LBBW (Bank) generated very solid earnings overall in the past financial year.

At EUR 596 million, operating income/expenses before allowances for losses on loans and advances and remeasurement gains/losses were only marginally lower than the previous year's figure of EUR 617 million. The earnings performance was characterized by a marked decline in net interest income which was boosted in the previous year by high non-recurring effects from investment income. Significantly lower administrative expenses compared with the previous year in conjunction with a statutory adjustment to the discount rate for pension provisions as well as noticeably higher net fee and commission income were unable to offset this development completely. Income/expenses from financial transactions in the trading portfolio and other operating income/expenses were stable overall with no appreciable changes over the previous year. An extremely positive development was recorded within allowances for losses on loans and advances/remeasurement gains/losses. While allowances for losses on loans and advances remained almost unchanged – particularly thanks to the good economic situation in LBBW's core markets and the good quality of its loan portfolios – remeasurement gains/losses for securities increased sharply due to disposals. The relevant market opportunities provided by volatile markets were utilized. The remeasurement gains/losses from equity investments including the transfer of losses was negative but improved considerably over the previous year. An allocation for the fund for general banking risks pursuant to Section 340g HGB was defined by a non-recurring effect from the aforementioned adjustment to the discount rate for pension provisions, which provides only temporary relief to administrative expenses. After taking into account the extraordinary result, which was characterized by restructuring expenses, interest on silent partners' contributions and the tax expense, net profit/loss before profit appropriation came to EUR 219 million (previous year: EUR 322 million).

Net profit/loss for the year before tax thus undershot the target figure for the 2016 financial year only slightly, while operating income before allowances for losses on loans and advances and remeasurement gains/losses marginally exceeded the planned figure. Opposing developments therefore offset each other almost completely.

At year-end 2016, the **volume of business** had increased over the previous year. After many years of decline, the volume increased as expected by EUR 10.9 billion to EUR 243.9 billion (previous year: EUR 233.0 billion). The increase was influenced by the strategic expansion of the Bank's long-term funding basis for meeting current and future regulatory liquidity and refinancing requirements. In the course of the strategic realignment of the capital markets business, transactions for liquidity management purposes have been concluded gradually in the non-trading portfolio since the second half of 2016, thus leading to shifts between individual balance-sheet items. This impacted on the balance-sheet items trading portfolio (trading assets and trading liabilities) and advances to customers and banks, and deposits from customers and banks. In contrast, the previous year was still characterized by the significant declines in volume due to the expiry of the guarantor's liability at the end of 2015.

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 therefore always able to obtain funding on the market on the requisite scale at all times, even after the expiry of guarantor's liability. 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. These issues met with strong interest not only from domestic but also from international investors.

The **liquidity ratio** as per LiqV totaled 1.50 as at 31 December 2016 (previous year: 1.43) and therefore easily exceeded the minimum requirement of 1.0.

Results of operations.

Performance figures:

	1 Jan. 2016 – 31 Dec. 2016 EUR million	1 Jan. 2015 – 31 Dec. 2015 EUR million	Change EUR million	in %
Net interest income	1 448	1 705	– 257	– 15.0
of which current hybrid servicing	– 14	– 16	2	– 14.3
Net fee and commission income	341	281	60	21.3
Net fee and commission income without guarantee commission	434	402	32	7.9
Guarantee commission for the State of Baden-Württemberg	– 93	– 121	28	– 23.1
Total operating income/expenses from the trading portfolio	272	268	4	1.4
Administrative expenses[1)]	– 1 575	– 1 755	180	– 10.2
Other operating income/expenses	110	119	– 8	– 7.0
Operating income before allowances for losses on loans and advances/remeasurement gain or loss	**596**	**617**	**– 22**	**– 3.5**
Allowances for losses on loans and advances/remeasurement gain or loss	36	– 132	169	-
Fund for general banking risks	– 207	0	– 207	100.0
Operating income/expenses (result from ordinary business activities)	**425**	**485**	**– 60**	**– 12.4**
Extraordinary result	– 105	– 45	– 60	> 100
Partial profit transfer	– 51	– 55	4	– 7.1
of which current hybrid servicing	– 51	– 55	4	– 7.1
Net profit/loss for the year before tax	**269**	**385**	**– 116**	**– 30.2**
Income taxes	– 50	– 63	13	– 21.0
Net profit/loss for the year after tax	**219**	**322**	**– 103**	**– 32.0**
Unappropriated profit/loss	**219**	**322**	**– 103**	**– 32.0**

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 noticeably in the financial year under review by EUR – 257 million to EUR 1 448 million. The significant decline was largely as a result of lower year-on-year investment income. Non-recurring income in 2015 led to a significant increase here. 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 in the deposit-taking business and LBBW's investment of its own funds. Although the decline in total assets in previous years was followed by a slight increase in 2016 for the first time, these assets comprise mainly highly liquid positions with correspondingly low interest rates. The impact of the marked decline in volume at the end of the previous year with the corresponding higher rates of interest in part therefore continued to make itself felt. In the lending business, lending to customers in individual business segments was extended selectively, albeit only at a low level because of the intense competitive situation and companies' good liquidity situation. Increased volume was recorded with large corporates in particular. LBBW continued its approach of focusing on low-risk new business.

Net fee and commission income improved again considerably year on year by EUR 60 million to EUR 341 million (previous year: EUR 281 million). Spurred by LBBW's strong position in arranging structured capital market issues and in the custody business, earnings from the securities and custody business improved in particular. It must be taken into account that fee and commission expense in the amount of EUR 15 million in conjunction with incidental acquisition costs from trading transactions was reclassified in total operating income/expenses from the trading portfolio. Income from payment transactions through cooperations in the credit card business also rose slightly. Net fee and commission income from loans and guarantees solely from the services industry declined due to muted new business and high competitive pressure. Reducing the holdings within the LBBW-funded special-purpose entity Sealink that does not require consolidation reduces the guarantee offered by the State of Baden-Württemberg for loans granted to this special-purpose entity. Consequently, the guarantee commission payable to the State of Baden-Württemberg fell by EUR – 28 million to EUR – 93 million.

Total operating income/expenses from the trading portfolio was stable compared with the previous year, improving slightly by EUR 4 million to EUR 272 million (previous year: EUR 268 million). Supported by good demand for products to hedge against foreign currency and interest rate risks, the trading book result was improved significantly over the previous year. In contrast, although the valuation discounts for the trading portfolio continued to fall further, the result of EUR 5 million was EUR – 38 million lower than the previous year. This was mainly due to lower credit valuation adjustments. Given the development of the trading portfolio and of relevant market parameters, no risk premiums were set aside for statutory reasons in 2016. A reversal of EUR 11 million was recorded instead (previous year: EUR 0 million). Due to the increase in gains/losses on financial instruments in the trading portfolio, the reserve for general banking risks in accordance with Section 340e (4) HGB in conjunction with Section 340g HGB increased to EUR – 31 million in the year under review (previous year: EUR – 30 million). The allocation made to the fund for general banking risks in line with Section 340e (4) no. 4 HGB was increased to such an extent in the 2016 financial year that the reserve for the extraordinary item now amounts to 50% of the average net income of the last five years.

Administrative expenses fell significantly by EUR 180 million over the previous year's figure of EUR – 1 755 million to a total of EUR – 1 575 million. This was due for the most part to a substantial reduction in staff costs arising from a legislative adjustment to the discount rate relevant for pension provisions. Pursuant to the new legal provision of Section 253 (2) HGB, the pension reserves were discounted on the basis of a 10-year rather than a seven-year discount rate for the first time in the 2016 financial year. Taking into account opposing effects, including from pay-scale increases, staff costs were reduced by EUR 205 million to EUR – 769 million. By contrast, other administrative expenses increased moderately by EUR – 26 million to EUR – 728 million (previous year: EUR – 702 million). A large portion of the expenses was still connected to the restructuring of the IT architecture that started in 2014. There was a marked increase in the IT costs in particular in the course of the investment in a new core banking system that will be rolled out in 2017 and will form the basis for increased digitalization and process optimization. Amortization and write-downs of intangible assets and property and equipment remained constant at EUR – 79 million during the year under review (previous year: EUR – 79 million).

Other operating income/expenses declined by EUR – 8 million to EUR 110 million (previous year: EUR 119 million), with opposing developments having taken place. While the disposal of cellent AG and the buyback of VISA Europe Limited shares by US-based Visa Inc. had a positive effect and the proceeds from the disposal of investments were increased over the previous year, higher expenses were incurred from the allocations to provisions.

Allowances for losses on loans and advances and remeasurement gain or loss improved sharply overall year on year by EUR 169 million to EUR 36 million (previous year: EUR – 132 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 102 million to EUR 31 million (previous year: EUR – 71 million). The positive result was principally attributable to proceeds from the sale of securities, where the Bank availed of the corresponding market opportunities provided by volatile markets. The previous year's result was burdened by remeasurement effects.
- The **remeasurement gain or loss on securities held as long-term investments** also increased by EUR 41 million to EUR 35 million (previous year: EUR – 6 million). Divestments to optimize the risk and liquidity position in the Treasury environment were also responsible here for the earning performance.
- The **remeasurement gain or loss from equity investments and affiliated companies** decreased by EUR – 15 million to EUR – 24 million (previous year: EUR – 9 million).
- **Gains/losses from the transfer of losses** improved by EUR 45 million to EUR – 5 million (previous year: EUR – 50 million). Among other factors, the deterioration was due to valuation effects in the real estate portfolio of a foreign subsidiary and the associated loss transfer in the previous year.
- **Allowances for losses on loans and advances** of EUR 0 million were more or less unchanged from the previous year (EUR 4 million) and were therefore significantly below the long-term average. In accordance with the economic trend, this figure was a reflection of the quality of LBBW's credit portfolio in its core markets.

Given that the effect from the statutory conversion of the discount rate for provisions for pension plans from a seven-year to a 10-year average provides only temporary relief, EUR 207 million was allocated to the **fund for general banking risks** in line with Section 340g HGB at the end of the 2016 financial year.

On balance, the **extraordinary result** deteriorated by EUR – 60 million to EUR – 105 million (previous year: EUR – 45 million). The conversion of the allocation to provisions for pension plans pursuant to the Accounting Law Modernization Act (BilMoG) resulted in an extraordinary expense of EUR – 26 million for 2016, as in the previous years as well. The restructuring result increased by EUR – 40 million in the financial year under review to EUR – 79 million (previous year: EUR – 40 million). In addition to the restructuring of the IT architecture within LBBW, the business processes and product range were streamlined. The resulting necessary measures and investment in future-proofing LBBW incurred expenses; in addition, the relevant issues relating to this were taken into account by creating provisions. Contrasting with this, partial amounts of provisions still existing in connection with EU restructuring were reversed as the reason for these provisions had ceased to exist. A positive non-recurring effect of EUR 22 million from the previous year also arose from the accrual of two real estate companies in order to optimize Group internal processes.

Net profit/loss before tax for the 2016 financial year amounted to EUR 269 million overall (previous year: EUR 385 million).

The income tax expense stood at EUR – 50 million for the 2016 financial year (previous year: EUR – 63 million). Current income taxes fell by EUR 14 million in the 2016 financial year to EUR – 59 million, largely as a result of lower profit before tax. On the other hand, tax revenue for earlier years fell only slightly to EUR 10 million (EUR 10 million).

Net profit/loss for the year after tax declined by EUR 103 million to EUR 219 million (previous year: EUR 322 million).

Net assets and financial position.

Assets	31 Dec. 2016 EUR million	31 Dec. 2015 EUR million	Change EUR million	in %
Cash and cash equivalents	13 524	1 156	12 368	> 100
Public-sector debt instruments and bills of exchange eligible for refinancing at central banks	0	0	0	
Loans and advances to banks	39 116	30 080	9 035	30.0
Loans and advances to customers	107 214	104 951	2 263	2.2
Debentures and other fixed-income securities	25 406	25 103	303	1.2
Equities and other non-fixed-income securities	117	117	0	– 0.3
Trading portfolio	28 945	43 439	– 14 494	– 33.4
Equity investments	564	594	– 31	– 5.1
Shares in affiliates	1 802	1 942	– 140	– 7.2
Trust assets	531	609	– 78	– 12.8
Intangible assets	228	148	81	54.7
Property and equipment	987	1 019	– 31	– 3.1
Other assets	919	1 159	– 240	– 20.7
Deferred items	2 353	2 583	– 231	– 8.9
Total assets	**221 706**	**212 901**	**8 805**	**4.1**

Equity and liabilities	31 Dec. 2016 EUR million	31 Dec. 2015 EUR million	Change EUR million	in %
Deposits from banks	44 024	43 594	430	1.0
Deposits from customers	71 194	63 211	7 983	12.6
Securitized liabilities	34 840	31 004	3 836	12.4
Trading portfolio	45 148	48 876	– 3 728	– 7.6
Trust liabilities	531	609	– 78	– 12.8
Other liabilities	605	555	50	9.0
Deferred items	2 900	3 365	– 465	– 13.8
Provisions	2 364	2 302	61	2.7
Subordinated liabilities	4 481	3 848	633	16.4
Capital generated from profit-participation rights	247	285	– 38	– 13.4
Fund for general banking risks	789	551	238	43.2
Equity	14 583	14 700	– 117	– 0.8
Total equity and liabilities	**221 706**	**212 901**	**8 805**	**4.1**
Contingent liabilities	7 898	7 400	498	6.7
Other obligations	25 199	23 646	1 553	6.6
Business volume [1]	**254 803**	**243 946**	**10 857**	**4.5**

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

Business volume extended.

Compared with the previous year, total assets of LBBW (Bank) increased by EUR 8.8 billion or 4.1 % to EUR 221.7 billion at year-end 2016.

The volume of business of LBBW (Bank) rose in parallel by EUR 10.9 billion or 4.5 % to EUR 254.8 billion. In addition to higher total assets, this was also due to an increase in irrevocable loan commitments and contingent liabilities.

This development was defined by an expansion of the cash reserves, and the portfolio of receivables from customers and banks. Securities repurchase transactions with central counterparties and promissory note loans with large regional customers contributed to this increase. The volume with large corporates developed favorably as well.

The development on the liabilities side was supported by the strategic expansion of the long-term funding basis for meeting current and future regulatory liquidity and refinancing requirements. The Bank was able to refinance itself on a long-term basis on the capital market in 2016 thanks to LBBW's good reputation as an issuer on the bond market. During the year under review, LBBW issued among other things an unsecured benchmark bond in the amount of EUR 1.3 billion, which was subsequently increased by EUR 0.3 billion, one subordinated bond sized at EUR 0.5 billion and several large-volume mortgage-backed covered bonds (Hypothekenpfandbriefe). The issues met with strong demand among domestic and international investors, and were all significantly oversubscribed.

In the course of the strategic realignment of the capital markets business, new business for liquidity management purposes has been reported gradually in the non-trading portfolio since the second half of 2016, this leading to shifts between individual balance-sheet items on the balance sheet dates of 31 December 2015 and 31 December 2016. In this context, the volume in particular of the trading portfolio (trading assets) was reduced through money market transactions that had matured or ended. In contrast, the volume of loans and advances to customers and banks and deposits from customers and banks in the form of newly concluded overnight and term money transactions increased.

Lending.

At the end of the year under review **cash and cash equivalents** came to EUR 13.5 billion. The sharp increase of EUR 12.4 billion was attributable almost exclusively to a high credit balance at central banks.

As at 31 December 2016 **loans and advances to banks** increased by EUR 9.0 billion to EUR 39.1 billion. The volume of securities repurchase transactions rose by EUR 5.0 billion, especially due to the expansion of transactions with central counterparties and large international banks. New business with savings banks and the reinvestment of maturing money market transactions in the banking book led to a EUR 3.4 billion increase in public-sector loans.

Loans and advances to customers climbed by EUR 2.2 billion to EUR 107.2 billion at the end of 2016. Besides an increase in securities repurchase transactions by EUR 1.0 billion, largely due to a rise in transactions via central counterparties, the positive volume development with large corporates and the aforementioned effects from the realignment of the capital markets business led to an increase in the portfolio.

Debentures and other fixed-income securities rose slightly by EUR 0.3 billion to EUR 25.4 billion. The main reason for the increase was the EUR 3.0 billion expansion of the holdings of covered bonds and debentures from international banks. On the other hand, exposure especially to southern European public-sector entities was reduced by EUR – 1.4 billion. Within the scope of reducing the exposure to purpose entity Sealink during the year under review, the volume of GPBW GmbH & Co. KG bonds held in LBBW's portfolio declined by EUR – 1.2 billion. LBBW had acquired this as part of the risk shield for the loans extended by GPBW GmbH & Co. KG to the special purpose entity Sealink.

Trading assets fell noticeably compared with the previous year by EUR – 14.5 billion to EUR 28.9 billion. Maturing overnight money, term money and call money with domestic and international banks led to a EUR – 7.5 billion decline in money market transactions. The volume of bonds and debentures held in the trading portfolio also fell by EUR – 5.7 billion, mainly through maturing German Länder bonds.

Funding.

Deposits from banks increased marginally by EUR 0.4 billion versus the end of 2015 to EUR 44.0 billion. The EUR – 5.4 billion decline in securities repurchase transactions was offset by a EUR 6.0 billion increase in other liabilities. The increase in other liabilities was largely attributable to the reinvestment of overnight and term money with international banks and to the utilization of the Bundesbank's tender program. The volume of issued registered covered bonds also declined by EUR – 0.3 billion to EUR 1 billion.

As at 31 December 2016 **deposits from customers** amounted to EUR 71.2 billion and were substantially above the previous year's figure, namely by EUR 8.0 billion. Other liabilities increased by EUR 6.4 billion, especially in connection with the realignment of the capital markets business through new overnight and term money transactions concluded with German federal states and public-sector entities. Securities repurchase transactions also rose by EUR 2.3 billion, while the volume of registered covered bonds issued fell by EUR – 0.6 billion.

The volume of **securitized liabilities** rose noticeably by EUR 3.8 billion to EUR 34.8 billion. The Bank was able to refinance itself on a long-term basis on the capital market in 2016 thanks to LBBW's good reputation as an issuer on the bond market. The issue of a EUR 1.5 billion benchmark bond and further large-volume debentures prompted the volume of other debentures issued to rise by EUR 2.6 billion. Similarly the issue of several mortgage-covered bonds in 2016 led to a net increase of EUR 2.5 billion in the volume of mortgage-backed covered bonds. Short-term funding via commercial paper also increased by EUR 0.6 billion over the previous year. Contrary to this, the volume of public-sector covered bonds declined by a total of EUR – 1.8 billion due to maturing covered debentures.

Trading liabilities declined by EUR – 3.7 billion to EUR 45.1 billion. The volume of money market transactions fell by EUR – 12.5 billion, essentially due to maturities. In contrast, securities transactions posted an increase of EUR 9.3 billion, mainly due to the increase in certificates of deposit and commercial paper transactions by the New York branch.

LBBW (Bank) increased its **subordinated capital** by EUR 0.6 billion to EUR 4.5 billion in the year under review. The basis for this was mainly a large-volume subordinated bond sized at EUR 0.5 billion that was issued in October. The subordinated capital was also increased through several private placements.

Equity.

At EUR 14.6 billion, the equity of LBBW (Bank) was in line with the level of the previous year (EUR 14.7 billion). Unappropriated profit of EUR 0.2 billion was down EUR – 0.1 billion on the previous year.

Financial position.

The funding strategy of LBBW (Bank) is determined by the Asset Liability Committee (ALCo). Here the Bank focuses on ensuring a balanced structure in terms of groups of products and investor groups used. The financial position of LBBW (Bank) throughout the entire year under review was satisfactory given the good liquidity. The Bank was always able to obtain funding on the market on the requisite scale. The liquidity indicator as per LiqV improved to 1.50 as at the reporting date of 31 December 2016 (previous year: 1.43).

Consolidated financial statements.

CONTENTS

The consolidated financial statements for the 2016 financial year were prepared in accordance with Section 315a (1) of the German Commercial Code (HGB) and Commission Regulation (EU) no. 1606/2002 of the European Parliament and of the Council dated 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 2016.

EUR million	Notes	1 Jan. – 31 Dec. 2016	1 Jan – 31 Dec. 2015 [1)]
Interest income	22	12 332	13 527
Interest expense	22	– 10 708	– 11 874
Net interest income	22	1 624	1 654
Allowances for losses on loans and advances	23	– 51	– 55
Fee and commission income	24	634	621
Fee and commission expense	24	– 107	– 106
Net fee and commission income	24	527	515
Net gains/losses from financial instruments measured at fair value through profit or loss	25	190	209
Net gains/losses from financial investments	26	183	75
Net income/expenses from investments accounted for using the equity method	27	13	19
Other operating income/expenses	28	101	134
Administrative expenses	29	– 1 814	– 1 782
Guarantee commission for the State of Baden-Württemberg		– 93	– 121
Expenses for bank levy and deposit guarantee system		– 71	– 73
Impairment of goodwill	40	– 379	0
Net income/expenses from restructuring	30	– 87	– 44
Net consolidated profit/loss before tax		**142**	**531**
Income taxes	31	– 131	– 109
Net consolidated profit/loss		**11**	**422**
of which attributable to non-controlling interests after tax		1	– 3
of which attributable to shareholders after tax		10	425

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

Total comprehensive income

for the period 1 January to 31 December 2016.

EUR million	Notes	1 Jan. – 31 Dec. 2016	1 Jan. – 31 Dec. 2015
Net consolidated profit/loss		**11**	**422**
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	– 221	– 3
Income taxes	31	67	1
Measurement gains/losses from own creditworthiness			
Measurement gains/losses from own creditworthiness before tax	21,53	– 27	0
Income taxes	31	4	0
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	90	366
Transferred to income statement	21,53	– 183	– 28
Income taxes	31	– 5	– 47
Measurement gains/losses from investments accounted for using the equity method			
Changes before tax	21,53	3	5
Transferred to income statement	21,53	0	– 15
Income taxes	31	0	1
Currency translation differences			
Changes before tax	21,53	6	16
Transferred to income statement	21,53	– 1	0
Total net consolidated profit/loss in equity		**– 265**	**296**
of which from non-current assets or disposal groups held for sale		– 47	62
Net consolidated total comprehensive income		**– 255**	**718**
of which attributable to non-controlling interests after tax		1	– 3
of which attributable to shareholders after tax		– 256	721

Balance sheet

as at 31 December 2016.

Assets.

EUR million	Notes	31 Dec. 2016	31 Dec. 2015
Cash and cash equivalents	8, 32	13 532	1 167
Loans and advances to banks	9, 33, 35	39 288	30 245
Loans and advances to customers	9, 15, 34, 35, 69	111 232	108 785
Allowances for losses on loans and advances	9, 35	– 828	– 1 128
Financial assets at fair value through profit or loss	6, 36	50 175	64 765
Financial investments	6, 37	25 693	25 230
Shares in investments accounted for using the equity method	3, 10, 38	233	239
Portfolio hedge adjustment attributable to assets	6	764	569
Non-current assets and disposal groups held for sale	11, 39	191	153
Intangible assets	12, 40	249	541
Investment property	13, 41	560	649
Property and equipment	14, 15, 42, 69	514	670
Current income tax assets	16, 43	116	114
Deferred income tax assets	16, 43	1 040	1 027
Other assets	17, 18, 44	861	989
Total assets		**243 620**	**234 015**

Equity and liabilities.

EUR million	Notes	31 Dec. 2016	31 Dec. 2015
Deposits from banks	6, 45	44 568	44 248
Deposits from customers	6, 46	70 641	62 540
Securitized liabilities	6, 47	34 355	29 424
Financial liabilities at fair value through profit or loss	6, 48	69 846	74 063
Portfolio hedge adjustment attributable to liabilities	6	485	569
Provisions	19, 49	3 734	3 401
Current income tax liabilities	16, 50	57	62
Deferred income tax liabilities	16, 50	31	27
Other liabilities	17, 51	889	709
Subordinated capital	20, 52	5 895	5 329
Equity	**21, 53**	**13 119**	**13 643**
Share capital		3 484	3 484
Capital reserve		8 240	8 240
Retained earnings		999	1 062
Other income		348	413
Unappropriated profit/loss		10	425
Shareholders' equity		**13 081**	**13 624**
Equity attributable to non-controlling interests		38	19
Total equity and liabilities		**243 620**	**234 015**

CONSOLIDATED FINANCIAL STATEMENTS

Statement of changes in equity

for the period 1 January to 31 December 2016.

EUR million	Share capital	Capital reserve	Retained earnings
Equity as at 1 January 2015	**3 484**	**8 240**	**949**
Allocation to retained earnings	0	0	438
Distribution to shareholders	0	0	– 314
Changes in the scope of consolidation	0	0	0
Actuarial gains/losses	0	0	– 2
Changes in AfS financial instruments	0	0	0
Measurement gains/losses from investments accounted for using the equity method	0	0	0
Currency translation differences	0	0	0
Net consolidated profit/loss in equity	**0**	**0**	**– 2**
Net consolidated profit/loss	0	0	0
Net consolidated total comprehensive income	**0**	**0**	**– 2**
Other changes in equity	0	0	– 9
Equity as at 31 December 2015	**3 484**	**8 240**	**1 062**
Equity as at 1 January 2016	**3 484**	**8 240**	**1 062**
Allocation to retained earnings	0	0	425
Reclassification of historical measurement effects from own creditworthiness (early application of IFRS 9)	0	0	– 46
Distribution to shareholders	0	0	– 290
Changes in the scope of consolidation	0	0	5
Actuarial gains/losses	0	0	– 154
Measurement gains/losses from own creditworthiness	0	0	0
Changes in AfS financial instruments	0	0	0
Measurement gains/losses from investments accounted for using the equity method	0	0	0
Currency translation differences	0	0	0
Net consolidated profit/loss in equity	**0**	**0**	**– 154**
Net consolidated profit/loss	0	0	0
Net consolidated total comprehensive income	**0**	**0**	**– 154**
Other changes in equity	0	0	– 3
Equity as at 31 December 2016	**3 484**	**8 240**	**999**

With regard to the presentation of gains and losses of financial liabilities designated at fair value through profit or loss, LBBW has opted for the voluntary early application of IFRS 9. Measurement gains/losses including the associated deferred taxes in connection with own creditworthiness from earlier reporting periods were reclassified from Retained earnings to Other income.

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

Revaluation reserve	Measurement gains/losses from investments accounted for using the equity method	Measurement gains/losses from own creditworthiness	Currency translation reserve	Unappropriated profit/loss	Shareholders' equity	Equity attributable to non-controlling interests	Total
49	**47**	**0**	**15**	**438**	**13 222**	**19**	**13 241**
0	0	0	0	– 438	0	0	0
0	0	0	0	0	– 314	0	– 314
4	0	0	0	0	4	0	4
0	0	0	0	0	– 2	0	– 2
291	0	0	0	0	291	0	291
0	– 9	0	0	0	– 9	0	– 9
0	0	0	16	0	16	0	16
291	**– 9**	**0**	**16**	**0**	**296**	**0**	**296**
0	0	0	0	425	425	– 3	422
291	**– 9**	**0**	**16**	**425**	**721**	**– 3**	**718**
0	0	0	0	0	– 9	3	– 6
344	**38**	**0**	**31**	**425**	**13 624**	**19**	**13 643**
344	**38**	**0**	**31**	**425**	**13 624**	**19**	**13 643**
0	0	0	0	– 425	0	0	0
0	0	46	0	0	0	0	0
0	0	0	0	0	– 290	0	– 290
0	0	0	0	0	5	17	22
0	0	0	0	0	– 154	0	– 154
0	0	– 22	0	0	– 22	0	– 22
– 97	0	0	0	0	– 97	0	– 97
0	3	0	0	0	3	0	3
0	0	0	5	0	5	0	5
– 97	**3**	**– 22**	**5**	**0**	**– 265**	**0**	**– 265**
0	0	0	0	10	10	1	11
– 97	**3**	**– 22**	**5**	**10**	**– 256**	**1**	**– 255**
0	0	0	0	0	– 3	1	– 2
247	**42**	**24**	**35**	**10**	**13 081**	**38**	**13 119**

Cash flow statement

for the period 1 January to 31 December 2016.

EUR million	Notes	1 Jan. – 31 Dec. 2016	1 Jan – 31 Dec. 2015 [1]
Net consolidated profit/loss		**11**	**422**
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		133	139
Increase in/reversal of provisions		315	199
Other non-cash expenses/income		– 664	– 159
Gains/losses on the sale of financial investments and property and equipment		– 92	– 116
Other adjustments		– 1 531	– 1 554
		– 1 828	**– 1 069**
Changes in assets and liabilities from operating activities			
Loans and advances to banks		– 9 062	8 091
Loans and advances to customers		– 2 823	4 095
Financial assets at fair value through profit or loss		19 325	14 142
Financial investments		– 376	5 209
Other assets from operating activities		203	– 268
Deposits from banks		432	– 7 980
Deposits from customers		8 151	– 7 187
Securitized liabilities		4 971	– 14 675
Financial liabilities at fair value through profit or loss		– 8 318	– 1 517
Other liabilities from operating activities		– 28	– 328
Dividends received		50	69
Interest received[1]		12 363	13 984
Interest paid[1]		– 10 937	– 12 494
Income taxes paid		– 83	25
Cash flow from operating activities		**12 039**	**95**
Proceeds from the sale of			
Equity investments		159	327
Property and equipment		2	13
Payments for the acquisition of			
Equity investments		– 20	– 27
Property and equipment		– 12	– 28
Intangible assets		– 130	– 91
Proceeds from the sale of consolidated companies[2]		14	0
Cash flow from investing activities		**12**	**194**
Dividends paid		– 290	– 314
Other payments	52	– 6	– 51
Net change in cash and cash equivalents from other capital		621	– 725
Cash flow from financing activities		**325**	**– 1 089**

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. 2016	1 Jan. – 31 Dec. 2015
Cash and cash equivalents at the beginning of the period	**32**	**1 167**	**1 936**
Cash flow from operating activities		12 039	95
Cash flow from investing activities		12	194
Cash flow from financing activities		325	– 1 089
Changes in cash and cash equivalents owing to exchange rates		– 11	32
Cash and cash equivalents at the end of the period	**32**	**13 532**	**1 167**

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 by profit participation certificates and typical silent partners' contributions are included in cash flow from financing activities.

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

Notes

for the 2016 financial year.

Basis of group accounting.

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

The consolidated financial statements for the 2016 financial year were prepared in accordance with section 315a (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 approved by the Board of Managing Directors for publication on 14 March 2017.

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. 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. Different reporting dates exist only for two companies. In these cases too, the figures as at 31 December 2016 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, 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 2016 financial year:

Annual Improvements to IFRS 2010 – 2012 Cycle, Annual Improvements to IFRS 2012 – 2014 Cycle.

This collective standard that was approved within the scope of the annual improvement projects is an IASB tool for implementing necessary but not otherwise urgent amendments to the existing IFRS framework. The changes may be of a purely editorial nature but they may also have an impact on the recognition, measurement and reporting of assets and liabilities as well as on the extent of the reporting obligations. The first-time application had no material impact on the consolidated financial statements.

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

This standard clarifies how contributions that the employees (or third parties) make themselves to defined benefit plans must be reported by the company providing the benefit. The first-time application had no material impact on the consolidated financial statements.

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

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

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

This standard clarifies that revenue-based methods to calculate depreciation generally do not appropriately reflect the use of fixed assets or intangible assets. The revised provisions permit such a method of depreciation to be only for intangible assets subject to certain conditions. The first-time application had no material impact on the consolidated financial statements.

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

This standard clarifies that interests acquired in a combined operation that represents a business operation within the meaning of IFRS 3 fundamentally meet the requirements of IFRS 3 as well. The first-time application had no material impact on the consolidated financial statements.

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

This standard permits the equity method to be used as an additional accounting option for shares in subsidiaries, joint ventures and associates in separate financial statements, provided the reporting company prepares the separate financial statements in compliance with IFRS. The first-time application had no impact on the consolidated financial statements.

Disclosure Initiative – Amendments to IAS 1.

This standard comprises various clarifications on evaluating the materiality of disclosure requirements and on disclosure and structure issues. The first-time application had no material impact on the consolidated financial statements.

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

This standard contains clarification concerning the application of the consolidation exemption of subsidiaries in accordance with IFRS 10 and concerning the corresponding disclosure requirements in accordance with IFRS 12. This affects parent companies that meet the requirements of an investment entity within the meaning of this standard. The first-time application had no impact on the consolidated financial statements of LBBW.

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. LBBW has availed itself 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, already in the 2016 financial year (see Note 57).

IFRS to be applied in future.

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

IFRS 14 Regulatory Deferral Accounts.

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

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

Disclosure Initiative – Amendments to IAS 7.

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

The changes are expected to be effective for the first time in the 2017 financial year. The first-time application of this IFRS is not expected to have any material effect. 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 2014 – 2016 Cycle.

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

The changes are expected to be effective for the first time in the 2017 (IFRS 12) and 2018 (IFRS 1 and IAS 28) financial years. They will not result in any material requirements for LBBW. The standard had not yet been recognized in European law at the date on which these financial statements were released for publication.

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

This standard clarifies that deferred tax assets relating to deductible temporary differences must also be capitalized; these differences arise from unrealized losses on debt instruments 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 qualifying date and with regard to the assessment of deferred tax assets arising from deductible temporary differences for impairment by means of a tax planning calculation.

The changes are expected to be effective for the first time in the 2017 financial year. Retroactive application is possible. The standard had not yet been recognized in European law at the date on which these financial statements were released for publication. No impact will result as LBBW already applies these principles.

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. LBBW will apply IFRS 9 in full for the first time in the 2018 financial year, apart from the option to present gains and losses on financial liabilities at fair value through profit or loss. The changes to IT systems and processes being undertaken as part of a project to bring them into line with IFRS 9 are progressing according to schedule within the LBBW Group.

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, measured at fair value through profit or loss (FVTPL) and measured at fair value through other comprehensive income (FVOCI). The following IAS 39 categories are eliminated by IFRS 9 and transferred to the new classification categories: held to maturity (HtM), loans and receivables (LaR) and available for sale (AfS). Derivatives embedded in contracts based on a financial asset within the scope of the standard are no longer accounted for separately in accordance with IFRS 9. Instead, the hybrid financial instrument is assessed as a whole with regard to the classification.

Based on IFRS 9, therefore, in future financial assets can be measured at amortized cost whenever the asset fulfils the criteria of a conventional credit relationship and forms part of a portfolio that is to be held to maturity. If the financial asset does not show the characteristics of a conventional credit relationship or if it belongs to a portfolio comprising only financial assets with an intention to sell, it is measured at fair value through profit or loss. A financial asset is to be recognized directly in equity if it has the characteristics of a conventional credit relationship and belongs to a portfolio of financial assets comprising financial assets with an intention to hold and those with an intention to sell.

The analyses performed in the adjustment project to date with regard to the impact resulting from the changed classification provisions have led LBBW to draw the following preliminary conclusions:

- The credit portfolio will continue to be measured almost in full at amortized cost.
- Securities currently belonging to the »available for sale« category and recognized directly in equity at fair value must in future be measured in part at amortized cost.
- No material impact is expected for strategic equity investments of LBBW to be held over the long term because the option of recognition directly in equity at fair value will probably continue to be used in these cases.

Impairment – financial assets.

LBBW expects the biggest impact on the presentation of net assets and results of operations to result from the revised requirements with respect to allowances for losses on loans and advances. In future, the size of allowances for losses on loans and advances that represent debt instruments and are not to be measured at fair value through profit or loss 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. 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.

First of all, the expected loss resulting from potential loss events over the next twelve months must be taken into account. 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 must be 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. The rise in allowances for losses on loans and advances also entails an increase in deferred tax assets which partly offset the loan loss provisioning measures in the income statement and in equity.

Specifically with reference to LBBW the expectation based on current findings, derived from the progress the adjustment project has made so far, is that LBBW's allowances for losses on loans and advances will in future be permanently at a higher level than they are at present. Initial simulation calculations show that this rise will be attributable, in particular, to customers and issuers whose credit rating has deteriorated more substantially over the term of the financial asset than was assumed in forecasts. Long-term financing is also expected to tend to have higher allowances for losses on loans and advances. By contrast, no material impact is expected for debtors with a stable credit rating or debtors already in default. Taking into account deferred taxes and the current economic setting, the first-time application of IFRS 9 is not expected to have a material effect on LBBW's reported equity or regulatory capital.

Classification – financial liabilities.

IFRS 9 largely retains the existing requirements of IAS 39 for the classification of financial liabilities. But according to IAS 39, all changes in the fair value of liabilities measured at fair value through profit or loss (FVO) are reported in the income statement whereas these fair value changes according to IFRS 9 are always presented as follows:

- The change in fair value attributable to changes in the credit risk of the liability is reported in other comprehensive income (OCI).
- The remaining change in fair value is reported in the income statement.

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. Because LBBW will avail itself of the option to continue accounting for these hedging strategies in accordance with the requirements of IAS 39, at least the new provisions on hedging relationships do not result in any material impact. The same applies to the change outside portfolio hedge accounting. At the same time, due to the reclassification of hedged items the accounting of hedging relationships can result in effects on earnings overall even if the relevant accounting standards are not changed; however, as things stand at present these effects are considered to be immaterial.

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 avails itself of this option in that no voluntary adjustment of the prior-year figures is intended.

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 lease agreements, 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. With the exception of additional information in the Notes pursuant to IFRS 15 no 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 are expected to be effective for the first time in the 2018 financial year. The standard had not yet been recognized in European law at the date on which these financial statements were released for publication.

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

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

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

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 are expected to be effective for the first time in the 2018 financial year. Given that LBBW's remuneration models do not fall within the scope of IFRS 4 »Insurance Contracts«, it does not have any impact on the consolidated financial statements. The standard had not yet been recognized in European law at the date on which these financial statements were released for publication.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration.

The IFRS IC's interpretation sets out the conversion of foreign currency transactions in the case of advance payments made 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 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.

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 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.

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

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

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

IFRS 16 Leases.

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

These changes are expected to be effective for the first time in the 2019 financial year. The scope of application and the impact of the first-time application of IFRS 16 are currently being examined as part of a preliminary study for the Group. The standard had not yet been recognized in European law at the date on which these financial statements were released for publication.

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 item.

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:

- Due to the portfolio approach and the fact that there is no active market for all instruments in the portfolio, the measurement of equity-based derivatives has switched in full to a model-based valuation. This amendment yielded income of EUR 7 million.
- The taking into account of macroeconomic factors in the calculation of the PD (probability of default) has been expanded. The models now permit a better forecast of the default rates with a time lead of more than a year. This change has resulted in an increase in general allowances for losses on loans and advances of EUR 9 million recognized through profit or loss.

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 to a limited extent.

As part of a development of analysis and recognition, net interest expense and income from derivatives totaling EUR 4.1 billion (previous year: EUR 2.5 billion) were netted in the consolidated financial statements for 2016 in the interests of improved economic presentation; secondly, a decision was made to reclassify direct transaction costs of trading transactions and to allocate them to the individual segments in which they arise. In the current financial year they total EUR 15 million and are no longer reported under Net fee and commission income but under Net trading gains/losses. To enhance transparency and clarity the previous year's figures were adjusted accordingly and an amount of EUR 18 million reclassified. The said adjustments do not have an impact on profit or loss for the year or on the balance sheet.

3. Scope of consolidation.

In addition to LBBW (Bank) as the parent company, 110 subsidiaries, including 10 structured entities (previous year: 121 subsidiaries including 13 structured entities), were included in the consolidated financial statements.

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

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

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

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

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

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

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

Subsidiaries are consolidated from the time when the Group acquires a controlling influence and the subsidiary meets quantitative or qualitative materiality criteria. The consolidation ends at the time when there is no longer any possibility for exercising a controlling influence or the 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 2016:

- Radon Verwaltungs-GmbH
- Rheinallee V Komplementär GmbH
- Rheinallee V GmbH & Co. KG
- LBBW Unternehmensanleihen Euro Offensiv

The following subsidiaries and structured entities were deconsolidated in the period under review:

- EAST Portfolio s.r.o.
- Zorilla Mobilien-Leasing GmbH
- BW Capital Markets Inc.
- Turtle Beteiligungs-Portfolio GmbH
- Turtle Beteiligungs-Hannover-City GmbH
- Turtle Beteiligungs-Ehningen II GmbH
- Turtle Ehningen II GmbH & Co. KG
- LEG Baden-Württemberg Verwaltungs-GmbH
- VVS II GmbH & Co. KG
- VVS II Verwaltungs-GmbH
- Bahnhofplatz Objekt-GmbH & Co. KG
- Kyma Grundstücksverwaltungsgesellschaft mbH & Co. Objekt Löhr's Carré KG
- BW Bank Capital Funding LLC I
- BW Bank Capital Funding Trust I
- aiP Isarauen GmbH & Co. KG

Seven joint ventures (previous year: eight joint ventures) and five associates (previous year: six associates) were accounted for using the equity method in the consolidated 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 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 meets quantitative or qualitative materiality criteria. The inclusion using the equity method ends at the time when there is no longer any possibility for exercising a controlling influence or the joint venture no longer meets quantitative or qualitative materiality criteria.

The dissolution of the following joint venture ended its being accounted for using the equity method:

- TCD LEG/FOM GbR

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

The shares in the following associated were divested during the financial year:

- Bauland Kruft Süd GmbH

A total of 100 subsidiaries (previous year: 123 subsidiaries) were not included in the consolidated interim financial statements because their individual and aggregate influence on the net assets, financial position and results of operations of the LBBW Group is not significant. These comprise mainly real estate and shelf companies, as well as start-up financing in the area of equity investments. The interests in these entities are either measured at fair value or carried at amortized cost.

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 »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 intra-group 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. Non-monetary items measured at amortized cost are translated at the historical rate at the transaction date. Non-monetary 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 1 euro in the respective currency	31 Dec. 2016	31 Dec. 2015
USD	1.0548	1.0914
GBP	0.8535	0.7358
SGD	1.5238	1.5446
JPY	123.0150	131.5500
CZK	27.0195	27.0160
MXN	21.7263	18.9315
RUB	64.4035	79.8531
CHF	1.0719	1.0808

6. Financial instruments.

Spot transactions of non-derivative financial instruments are recognized on the settlement date and spot transactions of derivative financial instruments on the trade date. Financial assets and financial liabilities are initially recognized when the entity becomes a party to the contractual provisions of the instrument.

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 seq.

Financial assets or financial liabilities 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 at fair value through profit or loss« or »Financial liabilities 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 at fair value through profit or loss« or »Financial liabilities 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 remeasurement gain or loss is reported in »Other income« under the subitem »Revaluation reserve« of AfS financial instruments. Impairment losses and realized remeasurement 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 at fair value through profit or loss« (positive fair values on the assets side) or under »Financial liabilities 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 seq. 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«.

The cash flow hedge used to a limited extent in the Group hedges the risks arising from future cash flows. The hedging transaction is recognized in the balance sheet at fair value. The changes in fair value that are deemed as the effective portion are recognized in »Other income« in the subitem »Revaluation reserve«. The ineffective portion is recognized under »Net gains/losses from hedge accounting« 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« depending on the category to which the security/tangibles asset is assigned in accordance with IAS 39. 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. Undrawn loan commitments and contingent liabilities are not taken into account here.

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 reduce 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. The 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.

Goodwill and software acquired or developed inhouse are mainly recognized under »Intangible assets«.

Goodwill is calculated as the excess of the cost of the acquisition over the acquirer's interest in the fair value of the net assets of the purchased company, net of deferred taxes and is allocated to the appropriate cash-generating units (CGUs). The Corporates segment is the only cash-generating unit in the LBBW Group in which goodwill is recognized.

When preparing the consolidated financial statements, goodwill is tested for impairment at least once a year, or during the year, if there are indications of potential impairment (triggering events, such as changes in the relevant market environment, legal conditions, the technical environment or the capitalization rate, or if results are expected to be negative or significantly lower than planned in the longer term).

The recoverable amount of the CGU, which recognizes goodwill, is compared with the carrying amount. The carrying amount is determined through the equity assigned to the CGU. The recoverable amount is the higher of the fair value less sales costs and the value in use. The Group calculates the achievable amount on the basis of the value in use. If the value in use exceeds the carrying amount of the cash-generating unit, the asset is not impaired and it is not necessary to estimate the fair value less selling costs. In addition to the profit forecasts, the fair value of a cash-generating unit is largely determined by the capitalization rate on which the profit forecasts are based and, to a much lesser extent, by the long-term growth discount. If the recoverable amount of the cash-generating unit is below its carrying amount, an impairment loss is recognized and reported in the income statement under the item »Impairment of goodwill«.

In order to determine the recoverable amount, the Group initially calculates the value in use as the present value of the future cash flows that are likely to be derived from the Corporates segment. The Group's own income valuation model is used to calculate the value in use. The special conditions of the banking business and regulatory requirements are taken into account. The model is used to calculate the present value of estimated future income that can be distributed to shareholders after the relevant regulatory capital requirements have been fulfilled.

Key parameters for the valuation model are profit forecasts on the basis of business plans agreed by management for a five-year period. The earnings components that are relevant to forecasts are determined using a top-down process followed by bottom-up validation, taking into account underlying macroeconomic data and market and competition analyses specific to the business field.

The profit forecasts form the basis for the derivation of a sustainable profit level. As a result of its strategic realignment, the Bank had not yet reached the level of sustainable cash flow at the end of the five-year period. This fact is reflected by an adjustment to the cash flow at the end of the planning period. The earnings level is discounted to the date of calculation using the capitalization rate.

The capitalization rates applied are calculated on the basis of the Capital Asset Pricing Model, which includes a risk-free basic interest rate, a market risk premium and a systematic risk factor (beta factor). The following external information sources are used: the values for the risk-free basic interest rate are calculated from historical market data using the Svensson method. The market risk premium is determined using empirical data. For relevant cash-generating units, the beta factors for presenting risks specific to LBBW are derived from beta factors of comparable peer groups specific to the sector.

In validating the achievable amount calculated, the important value drivers of the cash-generating unit are reviewed regularly. As a test of the resilience of the achievable amounts calculated, the major parameters of the profit forecasts are subjected to a sensitivity test.

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, of which excluding goodwill, are recognized under »Administrative expenses« in the income statement. Income from reversals of impairment losses on intangible assets, of which 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. This is shown for goodwill in a separate item in the income statement; other intangible assets are recognized 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. 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, 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. 2016	31 Dec. 2015
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 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« includes 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« includes 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 seq.; the net realizable value is calculated pursuant to IAS 2.28 et seq. 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 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 0.94 % p.a. and 1.97 % p.a. (previous year: 1.18 % p.a. and 2.07 % 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.

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 plant 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 by way of a service agreement. To protect the vested rights, the contribution payable to the Basiskonto (retirement account financed by the employer) 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).

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 capital account plan as a direct pension commitment. A standard model exists throughout the Group since January 2012, where the employees' individual gross conversion amount is converted into a benefit module by multiplying it by a market interest-related age factor. The age factors are set each year.

There are also employer-financed entitlements from earlier conversions of earnings into pension contributions, whose structures are largely similar. 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, 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, 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 entrants (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 2016 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 2016 financial year:

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

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

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

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

Valuation methods.

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

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

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

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

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

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

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

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

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

Impairment of goodwill and Net income/expenses from restructuring correspond to the income statement figures and are allocated to the segments in which they arise.

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

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

A segment's return on equity (RoE) is calculated according to the ratio of annualized consolidated profit/loss before tax to the maximum planned average equity tied up or to average equity tied up in the current reporting period. For the Group, RoE is calculated from the ratio of annualized consolidated profit/loss before tax to average equity on the balance sheet adjusted for the effects on earnings reported directly in equity. The cost/income ratio (CIR) is calculated based on the ratio of administrative expenses to 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.

Segment results by business area.

1 Jan. – 31 Dec. 2016 EUR million	Corporates	Financial Markets[3]	Retail/Savings Banks	Credit Investment	Corporate Items/ Reconciliation/ Consolidation[3]	LBBW Group
Net interest income	1 130	211	276	– 36	44	1 624
Allowances for losses on loans and advances	– 38	– 4	5	0	– 13	– 51
Net fee and commission income	221	99	218	0	– 12	527
Net gains/losses from financial instruments measured at fair value through profit or loss	15	291	0	0	– 116	190
Net gains/losses from financial investments and net income/expenses from investments accounted for using the equity method[1]	29	0	33	– 2	135	195
Other operating income/expenses	85	16	– 19	1	18	101
Total operating income/expenses (after allowances for losses on loans & advances)	**1 443**	**614**	**512**	**– 37**	**55**	**2 586**
Administrative expenses	– 743	– 424	– 543	– 9	– 95	– 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	– 28	– 5	– 4	– 7	– 71
Impairment of goodwill	– 379	0	0	0	0	– 379
Net income/expenses from restructuring	– 44	– 35	– 26	0	17	– 87
Consolidated profit/loss before tax	**250**	**127**	**– 61**	**– 144**	**– 30**	**142**
Income taxes						– 131
Net consolidated profit/loss						**11**
Segment assets (EUR billion)[2]	74.5	90.1	31.6	10.1	37.4	243.6
Risk weighted assets (EUR billion)	42.8	15.6	7.7	0.0	11.3	77.4
Tied-up equity (EUR billion)	3.8	1.4	0.7	0.1	6.9	12.9
RoE (in %)	5.9	7.0	< 0			1.1
CIR (in %)	51.2	68.6	> 100			74.3

1) The 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.
2) 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.
3) The Financial Markets segment is managed on the basis of an economic P&L for net interest income and net gains/losses from fair value changes as a whole. Due to the switch of internal economic management reporting to IFRS accounting in 2016, a direct comparison with the prior-year figures is not possible for these items in the income statement. The counter-effect is shown accordingly in the reconciliation.

1 Jan. – 31 Dec. 2015 EUR million	Corporates	Financial Markets [1]	Retail/Savings Banks	Credit Investment	Corporate Items/ Reconciliation/ Consolidation	LBBW Group [1]
Net interest income	1 140	415	321	– 34	– 188	1 654
Allowances for losses on loans and advances	– 61	11	– 2	2	– 5	– 55
Net fee and commission income	236	103	210	– 2	– 33	515
Net gains/losses from financial instruments measured at fair value through profit or loss	16	124	1	14	53	209
Net gains/losses from financial investments and net income/expenses from investments accounted for using the equity method[2]	74	0	0	0	20	94
Other operating income/expenses	122	2	17	0	– 7	134
Total operating income/expenses (after allowances for losses on loans & advances)	**1 526**	**656**	**548**	**– 20**	**– 159**	**2 551**
Administrative expenses	– 718	– 412	– 504	– 24	– 125	– 1 782
Guarantee commission for the State of Baden-Württemberg	0	0	0	– 121	0	– 121
Expenses for bank levy and deposit guarantee system	– 26	– 25	– 7	– 7	– 8	– 73
Net income/expenses from restructuring	– 3	0	– 35	0	– 6	– 44
Consolidated profit/loss before tax	**780**	**220**	**2**	**– 172**	**– 298**	**531**
Income taxes						– 109
Net consolidated profit/loss						**422**
Segment assets (EUR billion)[3]	72.6	81.1	31.7	13.7	35.0	234.0
Risk weighted assets (EUR billion)	41.8	14.0	8.3	0.7	9.7	74.5
Tied-up equity (EUR billion)	3.9	1.5	0.8	0.1	6.5	12.8
RoE (in %)	18.5	11.2	0.3			4.1
CIR (in %)	47.4	63.9	91.6			70.9

1) Restatement of prior year amounts (see Note 2).
2) The 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 73 million for the Corporates segment and to EUR – 2 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 6 million for Corporate Items.

Details on Corporate Items, Reconciliation and Consolidation.

EUR million	Corporate Items		Reconciliation/Consolidation		Corporate Items/ Reconciliation/Consolidation	
	1 Jan. – 31 Dec. 2016	1 Jan. – 31 Dec. 2015	1 Jan. – 31 Dec. 2016[3]	1 Jan. – 31 Dec. 2015	1 Jan. – 31 Dec. 2016	1 Jan. – 31 Dec. 2015
Net interest income	4	22	39	– 210	44	– 188
Allowances for losses on loans and advances	– 13	– 5	0	0	– 13	– 5
Net fee and commission income	0	0	– 12	– 33	– 12	– 33
Net gains/losses from financial instruments measured at fair value through profit or loss	– 15	– 26	– 101	80	– 116	53
Net gains/losses from financial investments and net income/expenses from investments accounted for using the equity method[1]	130	9	6	11	135	20
Other operating income/expenses	18	– 7	0	0	18	– 7
Total operating income/expenses (after allowances for losses on loans and advances)	**123**	**– 6**	**– 68**	**– 153**	**55**	**– 159**
Administrative expenses	– 95	– 125	0	0	– 95	– 125
Expenses for bank levy and deposit guarantee system	– 7	– 8	0	0	– 7	– 8
Net income/expenses from restructuring	17	– 6	0	0	17	– 6
Consolidated profit/loss before tax	**38**	**– 145**	**– 68**	**– 153**	**– 30**	**– 298**
Segment assets (EUR billion)[2]	33.8	35.6	3.6	– 0.6	37.4	35.0
Risk weighted assets (EUR billion)	13.0	11.2	– 1.8	– 1.4	11.3	9.7
Tied-up equity (EUR billion)	7.0	6.6	– 0.1	– 0.2	6.9	6.5

1) 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 19 million (previous year: EUR 73 million) in the Corporates segment and to EUR – 6 million (previous year: EUR – 2 million) in Corporate Items.
2) The shares of investments accounted for using the equity method allocated to the segments amount to EUR 233 million for the Corporates segment (previous year: EUR 233 million) and to EUR 0 million for Corporate Items (previous year: EUR 6 million).
3) The Financial Markets segment is managed on the basis of an economic P&L for net interest income and net gains/losses from fair value changes as a whole. Due to the switch of internal economic management reporting to IFRS accounting in 2016, a direct comparison with the prior-year figures is not possible for these items in the income statement. The counter-effect is shown accordingly in the reconciliation.

Consolidated profit/loss before tax of the LBBW Group amounted to EUR 142 million in the 2016 financial year and was weighed down heavily by the impairment of goodwill. Adjusted for this non-recurring effect consolidated profit/loss before tax came to EUR 521 million and was thus almost at the previous year's level (EUR 531 million). There were significant developments in the segments. Totaling EUR 316 million, console-dated profit/loss before tax of the three operating segments Corporates, Financial Markets and Retail/Savings Banks was markedly below the previous year's figure of EUR 1 001 million and burdened considerably by impairment of goodwill (EUR – 379 million) as well as by spending on future investment and by the persistent low interest-rate setting. Although the Credit Investment segment improved its performance over the previous year thanks to a decline in the guarantee commission for the risk shield, it still reported a consolidated loss before tax of EUR – 144 million (previous year: loss of EUR – 172 million). The Corporate Items segment also recorded a substantial improvement of EUR + 183 million to EUR 38 million in the 2016 financial year, mainly thanks to earnings contributions from the sale of equity investments and securities and the reversal of provisions. Taking into account administrative expenses almost at the previous year's level, the cost/income ratio within the LBBW Group rose moderately to 74.3 % when compared with the previous year (70.9 %). Following a phase of falling volumes, total assets in the LBBW Group were increased by EUR + 9.6 billion to EUR 243.6 billion at year-end 2016. The increase was primarily the result of an increase in the funding volume in the corporate customer business and of higher balances with central banks. Accordingly, risk weighted assets of the LBBW Group in the 2016 financial year rose to EUR 77.4 billion (previous year: EUR 74.5 billion).

The Corporates segment reported consolidated profit before tax of EUR 250 million (previous year: EUR 780 million) and was weighed down considerably by the full write-down of goodwill. Despite the persistence of historically low interest rates the funding business showed a gratifying performance, particularly with key accounts and commercial real estate customers. But the earnings decline could not be offset entirely because the previous year was marked by non-recurring income from the sale of equity investments. Allowances for losses on loans and advances reported a substantial decline to EUR – 38 million (previous year: EUR – 61 million) on account of the good position in the core markets and the high quality of the loan portfolio. The segment is moreover weighed down by investments in the future. As a result, administrative expenses declined slightly from

EUR – 718 million to EUR – 743 million, among other things due to expenses from projects for the bank as a whole and the restructuring of the IT architecture; at the same time restructuring provisions decreased by EUR – 41 million to EUR – 44 million. Despite the decline in earnings, the CIR increased only slightly to 51.2 % (previous year: 47.4 %). Segment assets were increased from EUR 72.6 billion to EUR 74.5 billion, mainly thanks to financing with key accounts and commercial real estate customers. Accordingly, risk weighted assets rose to EUR 42.8 billion (previous year: EUR 41.8 billion).

The Financial Markets segment generated a consolidated profit before tax of EUR 127 million, which however fell short of the previous year's figure (EUR 220 million). In the previous year the segment essentially benefited from an exceptionally favorable market setting. Despite continuing demand for protects to hedge against foreign currency and interest rate risks, LBBW's good image as an issuer on the bond market and its execution capacity, the performance from the 2015 financial year could not be repeated. Moreover, the changes in valuation discounts for financial instruments, essentially credit valuation adjustments, contributed to the decline. At EUR – 424 million, administrative expenses were almost at the previous year's level. In addition, the segment was weighed down by expenses totaling EUR – 35 million from initiatives and spending on the realignment of the capital markets business in order to adapt to changing customer requirements, which were reflected in the setting aside of a restructuring provision. The CIR showed a modest change from 63.9 % to 68.6 %. At EUR 90.1 billion, segment assets were perceptibly above the previous year's figure (EUR 81.1 billion). The increase essentially results from the increase in balances with central banks and the rise in securities repurchase transactions with large banks with international operations. As a result of the increased volume, risk weighted assets in the 2016 financial year rose to EUR 15.6 billion (previous year: EUR 14.0 billion).

At EUR – 61 million, consolidated profit/loss before tax in the Retail/Savings Banks segment in the past 2016 financial year fell short of the previous year (EUR 2 million). Despite stable lending operations and the expansion of the deposit volume, declining earnings were recorded on account of the persistently low interest rates and further drop in margins. The decline was partly offset by earnings contributions from payments through cooperations in the card business and, on a one-off basis, the VISA transaction. The segment was weighed down by additions to provisions and, as in the previous year, by expenses for projects for the bank as a whole, particularly for the new core banking system that will go live in 2017, and the restructuring of the IT architecture. They form the basis of an improved customer service on the path towards becoming a multi-channel bank. In line with the trend, the CIR was in excess of 100 % (previous year: 91.6 %). At EUR 31.6 billion, segment assets were at the previous year's level (EUR 31.7 billion). Risk weighted assets for the segment decreased to EUR 7.7 billion in 2016 (previous year: EUR 8.3 billion).

The Credit Investment segment was characterized in the previous year by the further run-off of the loan volume in relation to SPE Sealink Funding. As a result, the guarantee commission for the risk shield fell by EUR + 28 million during the 2016 financial year to EUR – 93 million. In addition, the non-guaranteed credit portfolio was sold off almost in its entirety. As a result, the segment now comprises almost exclusively the funding of the special-purpose vehicle Sealink Funding, which is still covered by the guarantee provided by the State of Baden Württemberg. Administrative expenses continue to fall, declining to EUR – 9 million (previous year: EUR – 24 million), resulting in a significantly improved consolidated profit/loss before tax of EUR – 144 million (previous year: EUR – 172 million). Segment assets declined substantially by EUR – 3.6 billion to EUR 10.1 billion (previous year: EUR 13.7 billion). Following the reduction of the non-guaranteed portfolio to almost zero and the further reduction of the bond of GPBW GmbH & Co. KG connected with the guarantee, risk weighted assets fell by EUR – 0.7 billion to almost zero during the 2016 financial year.

The Corporate Items segment recorded a significant improvement in consolidated profit/loss before tax by EUR + 183 million compared to the previous year to EUR 38 million, due to positive contributions from the sale of the cellent AG equity investment, the sale of bonds and disappearance of strain factors from the previous year to optimize the risk and liquidity positions within Treasury activities and the reversal of existing provisions in connection with the EU restructuring. Segment assets declined by EUR – 1.8 billion due to a large number of individual factors, including a change in the equity investment to EUR 33.8 billion. By contrast, risk weighted assets during the 2016 financial year came to EUR 13.0 billion (previous year: EUR 11.2 billion).

Reconciliation of segment results to the consolidated income statement.

In the 2016 financial year, the total of »Reconciliation/Consolidation« on the consolidated profit/loss before tax declined to EUR – 68 million (previous year: EUR – 153 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).
- In the previous year the valuation methods used in internal management reporting for part of the trading book holdings year differed from those of IFRS accounting.

- Effects arise resulting from IFRS-specific matters connected with hedge accounting and the fair value option. These are largely derivative financial instruments serving as economic hedges but that cannot be included in the IFRS accounting of hedging transactions.

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. 2016 EUR million	Germany	Europe (excl. Germany)	America	Asia	Reconciliation/ consolidation	LBBW Group
Total operating income/expenses (after allowances for losses on loans & advances)	2 372	92	105	28	– 11	2 586
Consolidated profit/loss before tax	23	52	67	8	– 7	142

1 Jan.– 31 Dec. 2015 EUR million	Germany	Europe (excl. Germany)	America	Asia	Reconciliation/ consolidation	LBBW Group
Total operating income/expenses (after allowances for losses on loans & advances)	2 418	4	108	26	– 4	2 551
Consolidated profit/loss before tax	494	– 39	72	7	– 2	531

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. 2016	1 Jan. – 31 Dec. 2015
Trading derivatives	7 077	7 727
Lending and money market transactions	2 684	3 115
Hedging derivatives	1 455	1 303
Fixed-income securities and debentures	273	455
Early termination fees	95	76
Other	389	404
Interest income	**11 974**	**13 080**
Leasing business	307	378
Equities and other non-fixed-income securities	13	32
Equity investments and affiliates	33	30
Profit transfer agreements	5	7
Current income	**358**	**448**
Interest and current income	**12 332**	**13 527**
Trading derivatives	– 7 044	– 7 583
Hedging derivatives	– 1 395	– 1 423
Deposits	– 1 090	– 1 480
Securitized liabilities	– 539	– 696
Leasing business	– 46	– 84
Subordinated capital	– 224	– 257
Transfer of losses	– 2	– 2
Other	– 367	– 350
Interest expense	**– 10 708**	**– 11 874**
Total	**1 624**	**1 654**

Net interest income declined only slightly when compared with the previous year. The persistence of extremely low interest rate levels on account of the ECB's expansionary monetary policy, which hit fresh lows in 2016, among other things led to a lower earnings contribution in the deposit-taking business with customers and from LBBW's own funds investment. In the lending business, lending to customers was expanded selectively but only at a low level on account of the intense competition and good liquidity situation of companies. At the same time, LBBW continued its approach to focus on low-risk new business.

In the case of financial assets in the LaR category on which valuation allowances were charged, interest of EUR 19 million (previous year: EUR 26 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 seq. resulted in interest income of EUR 2 million in the financial year (previous year: expense of EUR 9 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 – 87 million (previous year: EUR – 21 million) in the first half of the financial year under review and on interest expense in the amount of EUR 92 million (previous year: EUR 28 million). In addition, during the same period negative effects totaling EUR – 842 million (previous year: EUR – 171 million) were incurred in connection with derivative instruments and positive effects totaling EUR 820 million (previous year: EUR 156 million) in net interest income, which were of minor importance in the context of total net interest of EUR 8 532 million (previous year: EUR 9 030 million) and total expense of EUR – 8 439 million (previous year: EUR – 9 006 million) from derivative financial instruments.

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. 2016	1 Jan. – 31 Dec. 2015
Interest income	2 937	3 454
Interest expense	– 1 664	– 2 215
Total	**1 273**	**1 239**

23. Allowances for losses on loans and advances.

EUR million	1 Jan. – 31 Dec. 2016	1 Jan. – 31 Dec. 2015
Reversal of allowances for losses on loans and advances	218	321
Net gains/losses from provisions for lending business	12	7
Recoveries on loans and advances already written off	25	18
Direct loan write-offs	– 80	– 107
Additions to allowances for losses on loans and advances	– 223	– 289
Other expenses for the lending business	– 4	– 5
Total	**– 51**	**– 55**

24. Net fee and commission income.

EUR million	1 Jan. – 31 Dec. 2016	1 Jan. – 31 Dec. 2015
Securities and custody business	230	212
Payments business	113	104
Brokerage business	90	92
Loans and guarantees[1]	117	132
Leasing business	0	1
Other	83	80
Fee and commission income	**634**	**621**
Securities and custody business	– 57	– 54
Payments business	– 23	– 22
Loans and guarantees[1]	– 10	– 12
Brokerage business	– 8	– 8
Leasing business	– 2	– 3
Other	– 7	– 7
Fee and commission expenses	**– 107**	**– 106**
Total	**527**	**515**

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

Thanks to LBBW's strong position in arranging structured capital market issues, income in the securities syndication business improved in particular. Moreover, commissions in business with funds and custodial services also increased. Moreover, income from payment transactions rose through cooperations in the credit card business.

On the other hand, net fee and commission income from loans and guarantees with a pure service character declined on account of muted new business and intense competitive pressure.

Other net fee and commission income mainly comprises income and expenses from asset management.

Net fee and commission income from financial assets and financial liabilities not measured at fair value through profit or loss totaled EUR 76 million (previous year: EUR 75 million).

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. 2016	1 Jan. – 31 Dec. 2015
Net trading gains/losses	220	160
Net gains/losses from financial instruments designated at fair value	– 9	55
Net gains/losses from hedge accounting	– 20	– 6
Total	**190**	**209**

Net trading gains/losses.

All net gains/losses on the disposal and remeasurement of financial instruments in the held-for-trading category are reported under »Net trading gains/losses«. In addition, the income/loss from the foreign currency translation of items denominated in foreign currency and the remeasurement gains/losses from economic hedging derivatives are presented under this item. The interest and dividend income and the associated refinancing expenses of financial instruments are reported under »Net interest income«.

EUR million	1 Jan. – 31 Dec. 2016	1 Jan. – 31 Dec. 2015
Lending business	– 91	– 730
Equity transactions	231	15
Foreign exchange transactions	30	28
Economic hedging derivatives	– 87	– 104
Interest rate transactions	155	956
Gains/losses from foreign exchange/commodity products	– 18	– 6
Total	**220**	**160**

Income from interest rate transactions and lending business fell by a total of EUR – 162 million in the year under review. The previous year included shifts in earnings between the positions due to the holdings of capital-guaranteed products. The decline reflects the generally low level of interest rates and the low volatility of credit products.

By contrast, income/losses from equity derivatives, which result essentially from the certificates business and must therefore be considered in conjunction with the other income elements, improved by EUR 216 million on account of a strong price performance.

Gains/losses from economic hedging derivatives rose by a total of EUR 17 million, driven primarily by positive effects from derivatives to hedge items 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 – 790 million (previous year: EUR 2 772 million). These were offset by currency translation differences of EUR – 820 million (previous year: EUR – 2 743 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. 2016	1 Jan. – 31 Dec. 2015
Realized gains/losses	0	– 355
Unrealized gains/losses	– 9	410
Total	**– 9**	**55**

Last year, the unrealized gains/losses included a valuation effect of EUR 1 million in connection with taking into account LBBW's own credit rating. Due to the voluntary early partial application of IFRS 9, this effect was included at the current qualifying date under Equity (see Notes 2, 21, 53 and Statement of changes in equity).

Net gains/losses from hedge accounting.

The net gains/losses from hedge accounting include the remeasurement gains/losses from effective hedging transactions as part of hedge accounting. The effect on profit or loss of hedging transactions not satisfying the effectiveness requirements of IAS 39 is reported under »Net trading gains/losses«.

EUR million	1 Jan. – 31 Dec. 2016	1 Jan. – 31 Dec. 2015
Portfolio fair value hedge	– 19	– 4
of which hedged items	339	– 144
of which hedging instruments	– 358	140
Micro fair value hedge	– 2	– 2
of which hedged items	– 23	– 113
of which hedging instruments	22	111
Total	**– 20**	**– 6**

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. 2016	1 Jan. – 31 Dec. 2015
Net gains/losses on disposal	186	39
of which securities	91	– 15
of which equity investments	95	54
Impairment	– 3	– 13
Net gains/losses from financial investments (AfS)	**183**	**26**
Net gains/losses on disposal	0	– 2
of which securities	0	– 2
Net gains/losses from financial investments (LaR)	**0**	**– 3**
Net income/expenses from the disposal of investments accounted for using the equity method	**0**	**52**
Total	**183**	**75**

The contribution from securities improved markedly as a result of taking advantage of the market opportunities provided by the volatile markets. In addition to positive contributions from the sale of bonds, this increase was driven by subsequent purchase price adjustments in connection with equity instruments sold in the previous year. The execution of the sale of cellent AG at the beginning of 2016 also yielded a net gain from the sale of equity investments. Moreover, net income/expenses from equity investments improved as a result of the redemption of shares in VISA Europe Limited by Visa Inc, United States in the 2nd quarter of 2016.

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. 2016	1 Jan. – 31 Dec. 2015
Current income	27	37
Impairment	– 19	– 24
Reversals of impairment losses	9	6
Net gains/losses from investments in associates	**18**	**19**
Current expenses	– 1	– 2
Current income	1	3
Impairment	– 5	0
Net gains/losses from shares in joint ventures	**– 5**	**0**
Total	**13**	**19**

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. 2016	1 Jan. – 31 Dec. 2015
Disposal of inventories	255	128
Reversal of other provisions	72	64
Revenues from property services	16	20
Income from cost refunds by third parties	35	31
Management of other property portfolios	1	2
Operating leases	25	24
Fixed assets and intangible assets	2	15
Rental income from investment property	48	56
Income from the disposal of investment property	22	20
Net income from the fair value measurement of investment property	24	11
Foreign currency translation on investment property	7	5
Miscellaneous operating income	83	87
Other operating income	**591**	**462**
Disposal of inventories	– 227	– 114
Additions to other provisions	– 99	– 33
Impairment of inventories	– 1	0
Management of other property portfolios	– 1	– 1
Operating leases	– 7	– 6
Operating expenses for leased properties	– 13	– 13
Net losses from the fair value measurement of investment property	– 14	– 50
Miscellaneous operating expenses	– 128	– 112
Other operating expenses	**– 490**	**– 328**
Total	**101**	**134**

The income and expenses from the disposal of inventories primarily resulted from the sale of land and buildings, as well as development measures.

While provisions were reversed on a net basis 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, net income/expenses from investment property improved after coming under strain in the previous year from the fair value measurement of individual investment properties.

29. Administrative expenses.

The LBBW Group's administrative expenses comprise staff costs and other administrative expenses, as well as depreciation, amortization and write-downs of intangible assets and property and equipment.

EUR million	1 Jan. – 31 Dec. 2016	1 Jan. – 31 Dec. 2015
Wages and salaries	– 734	– 725
Expenses for pensions and benefits	– 130	– 131
Social security contributions	– 115	– 116
Other staff costs	– 58	– 57
Staff costs	**– 1 036**	**– 1 029**
IT costs	– 334	– 299
Legal and consulting expenses	– 99	– 101
Expenses from operating leases	– 39	– 29
Cost of premises	– 54	– 51
Association and other contributions	– 31	– 33
Advertising, public relations and representation costs	– 26	– 23
Audit costs	– 13	– 13
Miscellaneous administrative expenses	– 92	– 107
Other administrative expenses	**– 688**	**– 656**
Amortization and write-downs of intangible assets[1)]	– 43	– 39
Depreciation and write-downs of property and equipment[1)]	– 47	– 59
Depreciation, amortization and write-downs	**– 89**	**– 98**
Total	**– 1 814**	**– 1 782**

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 marginal increase in staff costs was caused in particular by pay-scale adjustments to wages and salaries.

A large portion of other administrative expenses was still connected to the restructuring of the IT architecture that started in 2014. IT costs, in particular, rose sharply as a result of the spending on a new core banking system that will go live in 2017 and constitutes the basis for greater digitalization and process optimization. Lower expenses on consulting and the maintenance of buildings will provide relief.

Miscellaneous administrative expenses also included postage, transportation and communication costs of EUR – 18 million (previous year: EUR – 17 million) as well as office and motor vehicle expenses of EUR – 14 million (previous year: EUR – 15 million).

For further explanations on leasing business, please see Note 69.

Expenses for pensions and other benefits include:

EUR million	1 Jan. – 31 Dec. 2016	1 Jan. – 31 Dec. 2015
Expenses for defined benefit obligations	**– 124**	**– 124**
Net interest income from defined benefit plans	– 63	– 61
Current service cost	– 61	– 63
Other expenses for pensions and benefits	**– 5**	**– 5**
Expenses for defined contribution obligations	**– 2**	**– 2**
Total	**– 130**	**– 131**

In addition to the expenses for pensions, LBBW Group paid EUR – 60 million in the financial year (previous year: EUR – 61 million) 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. 2016	1 Jan. – 31 Dec. 2015
Audit services	– 8	– 9
Audit-related services	– 2	– 1
Other services	– 3	– 3
Total	**– 13**	**– 13**

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. 2016	1 Jan. – 31 Dec. 2015
Reversal of provisions for restructuring measures	20	0
Additions to restructuring provisions	– 101	– 44
Ongoing expenses for restructuring measures	– 7	0
Total	**– 87**	**– 44**

Net income/expenses from restructuring were marked by current expenses and additions to provisions for measures to streamline and trim business processes and the product range, for example for the realignment of the capital markets business or the restructuring of the back office.

Contrasting with this, partial amount of the existing provisions for material expenses in connection with EU restructuring were reversed during the financial year as the reason for these provisions had ceased to exist.

31. Income taxes.

Income and expenses from income taxes are broken down as follows:

EUR million	1 Jan. – 31 Dec. 2016	1 Jan. – 31 Dec. 2015
Current income taxes in the reporting period	– 82	– 86
Current income taxes from previous years	5	12
Current income taxes	**– 76**	**– 74**
of which decrease in actual income tax expense from utilization of previously unrecognized loss carryforwards and tax credits	22	0
of which decrease in actual income tax expense from temporary differences from earlier periods not taken into consideration	0	11
Deferred income taxes	**– 55**	**– 35**
of which deferred income tax expense/income from change in temporary differences	13	35
of which deferred tax expense/income from change in tax rates	– 2	1
of which deferred tax expense from write-downs or the reversal of earlier write-downs	– 34	– 2
of which decrease in deferred income tax expense from previously unrecognized prior period temporary differences	1	7
of which decrease in deferred income tax expense from previously unrecognized loss carryforwards and tax credits	24	29
Total	**– 131**	**– 109**

The following reconciliation shows the relationship between reported and expected income taxes:

EUR million	1 Jan. – 31 Dec. 2016	1 Jan. – 31 Dec. 2015
Consolidated profit/loss before tax	**142**	**531**
Applicable tax rate	30.42 %	30.42 %
Expected income taxes	**– 43**	**– 162**
Tax effects		
from non-deductible operating expenses	– 21	– 52
from value adjustments	– 18	17
from taxes from the previous year recorded in the financial year	9	– 1
from permanent tax effects	– 103	– 12
from changes in tax rates	– 2	– 8
from differing tax rates affecting on deferred taxes as shown in profit or loss	6	– 14
from other differences	– 7	8
from tax-free income	48	115
Total	**– 131**	**– 109**

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 tax effects of value adjustments position comprises largely EUR – 8 million (previous year: EUR 24 million) from the effects from the change in deferred tax assets not recognized against valuation allowances on deferred tax assets and adjustments to tax losses carryforwards of EUR – 9 million (previous year: EUR 7 million).

The permanent tax effects essentially include the write-down of goodwill, the corresponding tax effect is EUR – 115 million.

Tax-free income includes, in particular, effects from the disposal of Group companies and tax-free dividend income as well as effects from tax provisions for interest expenses/income from the New York branch.

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. 2016	31 Dec. 2015
Loss and interest carryforwards (total)	6 264	6 642
of which loss and interest carryforwards for which deferred tax assets were created	2 207	2 673
of which loss and interest carryforwards for which no deferred tax assets were recognized	4 057	3 969
of which expire in 2017 and thereafter	459	485
of which non-forfeitable	3 598	3 484
Unrecognized temporary differences at the balance sheet date	91	86

Deferred tax assets of EUR 5 million (previous year: EUR 1 million) were recognized for Group companies that incurred a tax loss in the current or previous financial years 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	2016	2015	2016	2015
Assets				
Loans and advances (including allowances for losses on loans and advances)	463	550	– 22	– 29
Financial assets at fair value through profit or loss	3 831	3 916	– 1 981	– 2 135
Financial investments	121	142	– 58	– 50
Intangible assets	3	4	– 5	– 9
Property and equipment/investment property	18	23	– 88	– 88
Other assets	9	1	– 103	– 33
Equity and liabilities				
Liabilities	34	39	– 771	– 860
Financial liabilities at fair value through profit or loss	2	0	– 1 381	– 1 369
Provisions	602	513	– 2	– 2
Other liabilities	72	77	– 78	– 107
Loss and interest carryforwards	346	420	0	0
Outside basis differences	0	0	– 3	– 3
Net amount	– 4 461	– 4 658	4 461	4 658
Total	**1 040**	**1 027**	**– 31**	**– 27**
Change in the balance from deferred taxes	**9**	**– 71**		
of which changes recognized in profit or loss	– 55	– 35		
of which from revaluation reserve (financial investments – gains/losses on financial assets (AfS))	– 11	– 36		
of which measurement gains/losses of financial liabilities	4	0		
of which retained earnings (provisions – actuarial gains/losses)	68	2		
of which other changes recognized directly in equity	4	– 2		

In the financial year, the revaluation reserve (financial investments, gains/losses on financial assets AfS) recognized tax effects totaling EUR – 5 million (previous year: EUR – 48 million), which include deferred taxes of EUR – 11 million (previous year: EUR – 36 million) and actual taxes of EUR 6 million (previous year: EUR – 12 million).

No deferred tax liabilities were recognized for taxable temporary differences of EUR 10 million (previous year: EUR 14 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. 2016	31 Dec. 2015
Balances with central banks	13 346	1 026
Cash	186	141
Total	**13 532**	**1 167**

Balances with central banks included balances with Deutsche Bundesbank of EUR 9 767 million (previous year: EUR 663 million).

33. Loans and advances to banks.

Breakdown by business type.

EUR million	31 Dec. 2016	31 Dec. 2015
Public-sector loans	25 795	22 782
Current account claims	985	939
Securities repurchase transactions	7 676	2 662
Other loans	2 043	2 793
Borrower's note loans	50	110
Overnight and term money	1 209	128
Mortgage loans	199	114
Other receivables	1 331	716
Total	**39 288**	**30 245**
of which to central counterparties	5 042	729

Breakdown by region.

EUR million	31 Dec. 2016	31 Dec. 2015
Banks within Germany	32 438	25 879
Banks outside Germany	6 849	4 366
Total	**39 288**	**30 245**

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

Due to the realignment of the capital markets business, maturing money market transactions were reinvested not in the trading book but in the banking book. This alongside the new business with savings banks led to an increase in municipal loans.

The realignment of the capital markets business additionally had an impact on loans and advances to customers, trading assets, deposits from banks and customers and on trading liabilities.

34. Loans and advances to customers.

Breakdown by business type.

EUR million	31 Dec. 2016	31 Dec. 2015
Other loans	26 982	28 296
Mortgage loans	30 322	31 092
Public-sector loans	17 888	17 282
Receivables from finance leases	4 941	4 616
Transmitted loans	3 117	3 213
Securities repurchase transactions	12 336	11 318
Current account claims	3 359	2 701
Overnight and term money	4 892	4 038
Borrower's note loans	3 712	2 777
Other receivables	3 683	3 452
Total	**111 232**	**108 785**
of which to central counterparties	5 597	2 728

Breakdown by region.

EUR million	31 Dec. 2016	31 Dec. 2015
Customers within Germany	74 317	72 794
Customers outside Germany	36 915	35 991
Total	**111 232**	**108 785**

The increase in securities repurchase transactions is accounted for mainly by transactions with central counterparties. Driven by new business with large European corporates, there was an increase in borrower's note loans, in particular.

The item »Other loans« contains mainly syndicated loans in the amount of EUR 7 768 million (previous year: EUR 8 847 million) and corporate finance not secured by mortgages. The decline in other loans is largely due to repayments of the Sealink Funding junior loans and of investment loans.

For explanations on leasing business, see Note 69.

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 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**

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

Please refer to Note 49 for explanations on provisions for credit risks. For explanations on leasing business, see Note 69.

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

EUR million	31 Dec. 2016	31 Dec. 2015
Trading assets	46 648	61 678
Financial assets designated at fair value	750	913
Positive fair values from hedging derivatives	2 777	2 174
Total	**50 175**	**64 765**

Trading assets and financial assets designated at fair value.

EUR million	Trading assets		Financial assets designated at fair value	
	31 Dec. 2016	31 Dec. 2015	31 Dec. 2016	31 Dec. 2015
Debentures and other fixed-income securities	9014	14460	97	278
Money market instruments	944	648	0	0
Bonds and debentures	8070	13812	97	278
Equities and other non-fixed-income securities	689	750	203	185
Equities	402	310	0	0
investment fund units	286	440	201	182
Other securities	0	0	2	3
Other	13020	22351	450	450
Borrower's note loans	3007	3945	425	426
Other money market transactions	8879	16892	0	0
Other loans and receivables			24	24
Miscellaneous	1135	1515	0	0
Positive fair values from derivative financial instruments	23925	24117		
Total	**46648**	**61678**	**750**	**913**

Expired overnight money, term money and customer demand deposits with national and international banks led to a decline in Other money market transactions. Furthermore, bonds and debentures in the trading portfolio fell essentially due to maturities of bonds of German federal states.

The item contained EUR 291 million (previous year: EUR 4 636 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. 2016	31 Dec. 2015	31 Dec. 2016	31 Dec. 2015
Marketable and listed securities	7153	12492	58	116
Marketable and unlisted securities	2550	2718	240	345
Non-marketable securities	0	0	1	2
Total	**9703**	**15210**	**300**	**463**

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. 2016	31 Dec. 2015	31 Dec. 2016	31 Dec. 2015
Public-sector issuers	447	3843	27	27
Other issuers	8567	10616	70	251
Total	**9014**	**14460**	**97**	**278**

Positive fair values from hedging derivatives.

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

EUR million	31 Dec. 2016	31 Dec. 2015
Positive fair values from portfolio fair value hedges	2 263	1 610
Positive fair values from micro fair value hedges	514	564
Total	**2 777**	**2 174**

The positive fair values from hedging derivatives were broken down by hedged items as follows:

EUR million	31 Dec. 2016	31 Dec. 2015
Assets		
Derivative hedges on financial investments	– 1	0
AfS category	– 1	0
Equity and liabilities		
Derivative hedges on deposits from banks	24	26
Derivative hedges on deposits from customers	141	153
Derivative hedges on securitized liabilities	44	50
Derivative hedges on subordinated liabilities	306	334
Derivative hedges on portfolio fair value hedges	2 263	1 610
Total	**2 777**	**2 174**

37. Financial investments.

EUR million	31 Dec. 2016	31 Dec. 2015
Debentures and other fixed-income securities	24 788	24 181
Money market instruments	366	192
Bonds and debentures	24 422	23 988
Equities and other non-fixed-income securities	14	26
Other securities	14	26
Equity investments	785	859
Shares in affiliates	106	164
Total	**25 693**	**25 230**

As part of the run-off of the exposure to SPE Sealink in the year under review the GPBW GmbH & Co. KG bond held by LBBW decreased by EUR – 1.2 billion to EUR 4.3 billion. LBBW acquired the bond from GPBW GmbH & Co. KG as part of the risk shield for loans issued to SPE Sealink.

Financial investments included EUR 1 206 million (previous year: EUR 2 537 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. 2016	31 Dec. 2015
Marketable and listed securities	24 169	18 346
Marketable and unlisted securities	613	5 828
Non-marketable securities	20	32
Total	**24 802**	**24 207**

Money market instruments, bonds and debentures in financial investments were divided between public-sector and other issuers as follows:

EUR million	31 Dec. 2016	31 Dec. 2015
Public-sector issuers	14 381	18 891
Other issuers	10 407	5 290
Total	**24 788**	**24 181**

Changes in non-current financial investments in the 2016 and 2015 financial years are shown in the table below:

EUR million	Equity investments	Shares in affiliates	Total
Historical cost			
Balance as at 1 January 2016	**706**	**228**	**934**
Additions	19	2	20
Disposals	– 51	– 42	– 93
Currency translation differences	2	0	2
Changes in the scope of consolidation	31	– 31	0
Balance as at 31 December 2016	**706**	**157**	**863**
Depreciation, amortization and write-downs			
Balance as at 1 January 2016	**– 195**	**– 122**	**– 318**
Write-downs in the financial year	– 2	– 1	– 3
Disposals	22	7	29
Reclassifications	0	0	– 1
Changes in the scope of consolidation	– 15	13	– 2
Balance as at 31 December 2016	**– 191**	**– 104**	**– 294**
Changes in fair value			
Balance as at 1 January 2016	**348**	**59**	**407**
Changes in fair value	– 68	– 6	– 75
Transfers to income statement	– 12	0	– 12
Changes in the scope of consolidation	1	0	1
Reclassifications	1	0	1
Balance as at 31 December 2016	**270**	**52**	**322**
Carrying amount as at 31 December 2016	**785**	**106**	**891**

EUR million	Equity investments	Shares in affiliates	Total
Historical cost			
Balance as at 1 January 2015	**774**	**312**	**1 086**
Additions	7	12	18
Disposals	– 72	– 77	– 149
Currency translation differences	6	0	6
Reclassifications	2	– 2	0
Changes in the scope of consolidation	0	21	21
Transfer to non-current assets and disposal groups held for sale	– 12	– 37	– 49
Balance as at 31 December 2015	**706**	**228**	**934**
Depreciation, amortization and write-downs			
Balance as at 1 January 2015	**– 210**	**– 130**	**– 340**
Write-downs in the financial year	– 4	– 6	– 10
Disposals	21	3	24
Currency translation differences	– 1	0	– 1
Reclassifications	– 2	2	0
Transfer to non-current assets and disposal groups held for sale	2	8	9
Balance as at 31 December 2015	**– 195**	**– 122**	**– 318**
Changes in fair value			
Balance as at 1 January 2015	**344**	**35**	**379**
Changes in fair value	72	64	136
Currency translation differences	1	1	2
Transfers to income statement	– 6	6	– 1
Changes in the scope of consolidation	0	4	4
Transfer to non-current assets and disposal groups held for sale	– 62	– 50	– 113
Balance as at 31 December 2015	**348**	**59**	**407**
Carrying amount as at 31 December 2015	**859**	**164**	**1 023**

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

EUR million	31 Dec. 2016	31 Dec. 2015
Associates	226	227
Joint ventures	7	12
Total	**233**	**239**

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:

- In 2015 LBBW opened negotiations on the sale of two unconsolidated equity investments. One equity investment (cellent AG) that was allocated to the Corporate Items reporting segment was disposed of in January 2016. The sale of the second equity investment (VISA Europe Limited), which was assigned to the Retail/Savings Banks reporting segment, was concluded in the second quarter of 2016.
- One real estate property for which LBBW had opened sales negotiations at the end of the 2015 financial year, was sold in the first quarter of 2016. This affected the Corporates reporting segment.
- LBBW opened sales negotiations for several real estate properties in the first half-year of 2016. The properties were sold in the third and fourth quarters of 2016. This affects the Corporates reporting segment.
- Sales negotiations for additional real estate properties allocated to the Corporates and Corporate Items reporting segments were begun in the second half of 2016. The properties are expected to be sold in the third quarter of 2017.
- In addition, sales negotiations for a non-consolidated equity holding started in the second half of the year. The sale of this equity holding is expected to take place in the first half of 2017. This affects the Corporates Items reporting segment.

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

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

EUR million	31 Dec. 2016	31 Dec. 2015
Assets		
Financial investments	28	104
Investment property	52	49
Property and equipment	111	0
Total	**191**	**153**

40. Intangible assets.

The changes in intangible assets are shown in the following tables for 2016 and 2015:

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
Transfers	33	0	– 36	0	3	0
Disposals	0	0	0	0	0	– 1
Balance as at 31 December 2016	**790**	**933**	**69**	**88**	**20**	**1 901**
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	0	0	0	0	1
Balance as at 31 December 2016	**– 675**	**– 933**	**0**	**– 33**	**– 11**	**– 1 652**
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

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 2015	**683**	**933**	**28**	**31**	**9**	**1 684**
Currency translation differences	1	0	0	0	0	1
Additions	34	0	36	18	3	91
Transfers	10	0	– 14	0	4	0
Disposals	– 2	0	0	– 1	– 1	– 4
Balance as at 31 December 2015	**725**	**933**	**51**	**49**	**15**	**1 773**
Amortization and impairment losses/reversals of impairment losses						
Balance as at 1 January 2015	**– 610**	**– 553**	**0**	**– 27**	**– 5**	**– 1 195**
Scheduled amortization	– 32	0	0	– 1	– 2	– 36
Unscheduled write-downs	0	0	0	– 4	0	– 4
Transfers	1	0	0	0	– 1	0
Disposals	2	0	0	1	1	4
Balance as at 31 December 2015	**– 640**	**– 553**	**0**	**– 31**	**– 8**	**– 1 231**
Carrying amounts						
Balance as at 1 January 2015	73	379	28	4	4	489
Balance as at 31 December 2015	85	379	51	18	8	541

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 142 million (previous year: EUR 62 million) had a remaining useful life of more than 12 months as at the reporting date.

Goodwill.

Please refer to the explanations in the General Accounting and Valuation Methods with regard to the procedure for conducting an impairment test in accordance with IAS 36. The carrying amount of goodwill and the gross amounts and cumulative impairments developed as following in the segments in the financial year:

	Corporates		Financial Markets		Total	
EUR million	2016	2015	2016	2015	2016	2015
Balance as at 1 January	**379**	**379**	**0**	**0**	**379**	**379**
Impairment	– 379	0	0	0	– 379	0
Balance as at 31 December	**0**	**379**	**0**	**0**	**0**	**379**
Gross amount of goodwill	917	917	16	16	933	933
Cumulative impairment	– 917	– 537	– 16	– 16	– 933	– 553

In the context of the impairment test performed, the recoverable amount is below the carrying amount of the goodwill-bearing Corporates segment; this means that the goodwill in the Corporates segment amounting to EUR 379 million was written down in full.

The recoverable amount is the higher of the fair value less sales costs and the value in use. An explicit calculation of fair value less sales costs was dispensed with. A fair value for the cash-generating unit cannot be derived from market data because no binding offers or pricings on an active market are available, because no possible real synergies exist, the amount of the fair value corresponds to the value in use. The value in use is the present value of projected future cash flows of the Corporates segment.

The cash flow forecast of the cash-generating unit is based on the planning drawn up by LBBW at the end of 2016. The economic market parameters underlying the planning are prepared by LBBW Research. The key assumptions of the planning are a historically low interest rate environment in combination with a continuation of an expansionary monetary policy and a stable economic situation with moderate GDP growth in Germany. The years from 2017 onwards will moreover be characterized by progressive digitalization with additional competitors and an increased need for investment and still by the implementation of rising regulatory requirements. The said underlying conditions will be reflected in lower demand for loans along with heightened competitive pressure and will weigh on the cash flow forecast, particularly in the SME business.

The projected future cash flows for the Corporates segment are discounted to the measurement date as part of the impairment tests. The impairment test is based on a capitalization rate of 8.97 % and 7.22 % in the perpetual annuity. These are post-tax rates.

41. Investment property.

The carrying amounts of the investment property measured at fair value developed as follows in the year under review

EUR million	2016	2015
Carrying amount as at 1 January	**649**	**705**
Additions	6	158
Disposals	– 47	– 87
Transfer to non-current assets or disposal groups held for sale	– 72	– 49
Currency translation differences	4	24
Changes in fair value from assets (through profit or loss)	10	– 38
Transfers out of/into inventories and property and equipment	10	– 65
Other reclassifications	0	2
Carrying amount as at 31 December	**560**	**649**

Investment property of EUR 560 million (previous year: EUR 649 million) had a remaining useful life of more than 12 months as at the reporting date.

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 2016	**1 102**	**138**	**305**	**6**	**10**	**267**	**1 828**
Currency translation differences	2	0	– 1	0	0	0	1
Additions	2	1	9	0	0	1	12
Transfers	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	**883**	**138**	**271**	**0**	**9**	**254**	**1 556**
Amortization and impairment losses/reversals of impairment losses							
Balance as at 1 January 2016	**– 659**	**– 120**	**– 210**	**0**	**– 7**	**– 162**	**– 1 158**
Currency translation differences	0	0	1	0	0	0	0
Scheduled amortization	– 29	– 3	– 14	0	– 1	– 7	– 54
Transfers	– 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	**– 565**	**– 123**	**– 189**	**0**	**– 7**	**– 158**	**– 1 042**
Carrying amounts							
Balance as at 1 January 2016	443	18	95	6	3	105	670
Balance as at 31 December 2016	317	15	82	0	2	96	514

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 2015	**1 082**	**94**	**357**	**5**	**10**	**219**	**1 767**
Currency translation differences	– 2	0	0	0	0	0	– 1
Additions	10	0	10	5	0	3	28
Transfers	17	44	– 40	– 2	0	46	65
Disposals	– 5	– 1	– 23	– 1	0	– 1	– 31
Balance as at 31 December 2015	**1 102**	**138**	**305**	**6**	**10**	**267**	**1 828**
Amortization and impairment losses/reversals of impairment losses							
Balance as at 1 January 2015	**– 644**	**– 76**	**– 253**	**0**	**– 6**	**– 144**	**– 1 123**
Scheduled amortization	– 33	– 3	– 17	0	– 1	– 4	– 58
Unscheduled write-downs	– 5	0	0	0	0	– 1	– 6
Transfers	17	– 42	38	0	0	– 14	– 1
Disposals	5	1	22	0	0	0	29
Balance as at 31 December 2015	**– 659**	**– 120**	**– 210**	**0**	**– 7**	**– 162**	**– 1 158**
Carrying amounts							
Balance as at 1 January 2015	438	19	104	5	3	75	644
Balance as at 31 December 2015	443	18	95	6	3	105	670

Amortization and write-downs 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 440 million (previous year: EUR 603 million) had a remaining useful life of more than 12 months.

43. Income tax assets.

EUR million	31 Dec. 2016	31 Dec. 2015
Current income tax assets	116	114
of which in Germany	111	95
of which outside Germany	5	19
Deferred income tax assets	1 040	1 027
Total	**1 157**	**1 141**

Of the current income tax assets, EUR 116 million is due within one year (previous year: EUR 114 million). Deferred income tax assets amounting to EUR 1 040 million have a term of over 12 months (previous year: EUR 1 027 million).

For a detailed description of income tax assets, see Note 31.

44. Other assets.

EUR million	31 Dec. 2016	31 Dec. 2015
Inventories	333	400
Receivables from tax authorities	31	16
Other miscellaneous assets	497	573
Total	**861**	**989**

»Other assets« included assets amounting to EUR 21 million (previous year: EUR 23 million) with a remaining useful life of more than 12 months.

Borrowing costs of EUR 1 million (previous year: EUR 2 million) were capitalized (further details can be found in Note 18).

The inventories can be broken down as follows:

EUR million	31 Dec. 2016	31 Dec. 2015
Land and land rights, with unfinished buildings	118	192
Work in progress and development measures	76	73
Land and land rights, with finished buildings	1	11
Land and land rights, without buildings	47	17
Other inventories	91	107
Total	**333**	**400**

The carrying amount of inventories recognized at fair value less costs to sell was EUR 15 million (previous year: EUR 16 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. 2016	31 Dec. 2015
Securities repurchase transactions	3 298	8 676
Transmitted loans	23 880	23 234
Borrower's note loans	4 125	4 656
Overnight and term money	7 359	2 308
Public-sector registered covered bonds issued	697	909
Current account liabilities	2 655	1 993
Mortgage-backed registered covered bonds issued	268	324
Other liabilities	2 287	2 148
Total	**44 568**	**44 248**
of which to central counterparties	1 393	3 717

Breakdown by region.

EUR million	31 Dec. 2016	31 Dec. 2015
Banks within Germany	39 031	39 581
Banks outside Germany	5 537	4 667
Total	**44 568**	**44 248**

The reduced business volume of securities repurchase transactions was almost offset by an increase in overnight and term money through use of the Bundesbank's tender program and new business with international banks.

46. Deposits from customers.

Breakdown by business type.

EUR million	31 Dec. 2016	31 Dec. 2015
Current account liabilities	34 422	34 753
Overnight and term money	15 226	8 291
Borrower's note loans	2 026	2 351
Securities repurchase transactions	5 038	2 745
Public-sector registered covered bonds issued	3 646	3 990
Savings deposits	6 979	7 142
Mortgage-backed registered covered bonds issued	783	944
Other liabilities	2 521	2 323
Total	**70 641**	**62 540**
of which to central counterparties	3 677	2 447

Breakdown by region.

EUR million	31 Dec. 2016	31 Dec. 2015
Customers within Germany	60 748	55 504
Customers outside Germany	9 893	7 036
Total	**70 641**	**62 540**

Because Germany's federal states and public-sector companies make increasing use of LBBW to invest their liquidity, overnight and term money holdings increased perceptibly. The volume of securities repurchase transactions rose particularly with the extension of the volume of business conducted with central counterparties.

Overnight and term money includes the liabilities to GPBW GmbH & Co. KG totaling EUR 4.3 billion.

47. Securitized liabilities.

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

EUR million	31 Dec. 2016	31 Dec. 2015
Issued debentures	28 612	25 133
Mortgage-backed covered bonds	9 129	6 834
Public-sector covered bonds	4 042	5 898
Other bonds	15 441	12 401
Other securitized liabilities	5 743	4 291
Total	**34 355**	**29 424**

With regard to other debentures, new issues of large-volume bonds substantially exceeded the repayments and maturities, as a result of which holdings increased in the 2016 financial year. In addition, the issue of several mortgage-backed covered bonds led to a net increase in covered mortgage bonds.

In the year under review new issues, essentially short-dated money market paper, with a nominal volume of EUR 508 852 million (previous year: EUR 700 122 million) was issued. Initial sales may fall substantially short of the issued nominal volume. During the same period the volume of buybacks amounted to a nominal figure of EUR 5 585 million (previous year: EUR 3 489 million) and the volume of repayments to a nominal EUR 225 621 million (previous year: EUR 311 451 million).

48. Financial liabilities at fair value through profit or loss.

EUR million	31 Dec. 2016	31 Dec. 2015
Trading liabilities	63 090	67 278
Financial liabilities designated at fair value	2 768	3 257
Negative fair values from hedging derivatives	3 989	3 528
Total	**69 846**	**74 063**

Trading liabilities and financial liabilities designated at fair value.

	Trading liabilities		Financial liabilities designated at fair value	
EUR million	31 Dec. 2016	31 Dec. 2015	31 Dec. 2016	31 Dec. 2015
Negative fair values from trading derivatives and economic hedging derivatives	21 394	23 445		
Money market transactions	28 856	36 190	94	88
Securitized liabilities	11 464	7 069	1 114	1 587
Delivery obligations from short sales of securities	1 349	550		
Borrower's note loans	25	24	697	643
Subordinated liabilities			278	323
Other	2	0	585	617
Total	**63 090**	**67 278**	**2 768**	**3 257**

The reduction in money market transactions was essentially the result of maturities. The change in negative fair values from trading derivatives resulted in particular from maturing interest rate swaps. On the other hand, the holdings of securitized liabilities in the trading book increased due to the net increase in certificates of deposit and commercial paper transactions.

Negative fair values from hedging derivatives.

The negative fair values from derivatives that are used to secure hedged items against interest rate risks are reported in this item and meet the requirements of the IFRS Hedge Accounting. Interest rate swaps and cross-currency interest rate swaps were designated as hedging instruments.

EUR million	31 Dec. 2016	31 Dec. 2015
Negative fair values from portfolio fair value hedges	2 908	2 296
Negative fair values from micro fair value hedges	1 081	1 231
Total	**3 989**	**3 528**

The negative fair values from hedging derivatives were broken down by hedged item as follows:

EUR million	31 Dec. 2016	31 Dec. 2015
Assets		
Derivative hedges on loans and advances to banks	28	27
Derivative hedges on loans and advances to customers	261	303
Derivative hedges on financial investments	775	881
AfS category	775	881
Equity and liabilities		
Derivative hedges on securitized liabilities	16	21
Derivative hedges on portfolio fair value hedges	2 908	2 296
Total	**3 989**	**3 528**

49. Provisions.

EUR million	31 Dec. 2016	31 Dec. 2015
Provisions for pensions	3 160	2 908
Provisions for litigation and recourse risks	182	146
Provisions for lending business	59	71
Other personnel-related provisions	112	104
Other provisions	222	171
Total	**3 734**	**3 401**

As at the reporting date, provisions of EUR 186 million (previous year: EUR 108 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. 2016	1 Jan. – 31 Dec. 2015
Net interest income from defined benefit plans	– 63	– 61
Current service cost including the release of pension liabilities	– 61	– 63
Net additions to provisions for pensions and other post-employment benefit obligations	**– 124**	**– 124**

The present value of the defined benefit obligations is broken down into the following components:

EUR million	2016	2015
Balance as at 1 January	**3 144**	**3 117**
Changes recognized in the income statement	129	129
Interest expense/income	68	66
Current service cost including the release of pension liabilities	61	63
Changes recognized in other income	216	3
Actuarial gains(+)/losses(-) from changes to the demographic assumptions	3	6
Actuarial gains(+)/losses(-) from changes to the financial assumptions	245	– 18
Experience-based actuarial gains(+)/losses(-)	– 27	12
Changes in exchange rates	– 5	2
Other changes	– 107	– 104
Employer contributions	1	1
Pension benefits paid	– 108	– 105
Balance as at 31 December	**3 382**	**3 144**

The present value of the defined pension obligations was classified as follows by the type of beneficiary:

EUR million	1 Jan. – 31 Dec. 2016	1 Jan. – 31 Dec. 2015
Present value of the pension obligations for active employers	1 261	1 135
Present value of the pension obligations for candidates	484	457
Present value of the pension obligations for retirees	1 637	1 552
Total	**3 382**	**3 144**

This present value was broken down as follows by type of benefit:

EUR million	1 Jan. – 31 Dec. 2016	1 Jan. – 31 Dec. 2015
Present value of the accrued but non-vested pension obligations	311	295
Present value of the vested pension obligations	3 071	2 849
Total	**3 382**	**3 144**

The present value of the defined benefit plans arose from the following commitments or benefits:

EUR million	1 Jan. – 31 Dec. 2016	1 Jan. – 31 Dec. 2015
Present value of the pension obligations based on conditional benefits	4	3
Present value of the pension obligations based on future salary increases	304	288
Present value of the pension obligations based on other benefits	3 074	2 853
Total	**3 382**	**3 144**

Obligations under defined benefit plans were calculated using the following actuarial assumptions:

in %	31 Dec. 2016	31 Dec. 2015
Fluctuation	4.00	4.50
Discount rate	1.72	2.18
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. 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

31 Dec. 2015 EUR million	Increase of 0.5 % pp	Decrease of 0.5 % pp
Defined benefit pensions		
Change in calculatory interest rate	– 228	258
Change in expected income development	88	– 81
Change in expected pension growth	64	– 58
Change in career dynamics	6	– 6
Change in fluctuation	– 1	1

A one-year increase in life expectancy would lead to a 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 plan assets consisted of the following at year-end:

EUR million	31 Dec. 2016	31 Dec. 2015
Time deposits and other cash and cash equivalents	21	27
Level I measurement	11	20
Level II measurement	10	7
Securities	198	206
Securities – equity instruments	49	55
Equity instruments from banks	37	37
Level I measurement	37	37
Equity instruments from other financial corporations	12	18
Level II measurement	12	18
Securities – debt instruments	149	150
Debt instruments from financial institutions	140	142
Level I measurement	140	142
Debt instruments from other financial corporations	9	9
Level II measurement	9	9
Real estate	3	3
Plan assets	**222**	**236**

None of the above assets were used directly by the LBBW Group.

The fair value of plan assets changed as follows during the financial year:

EUR million	2016	2015
Balance as at 1 January	**236**	**242**
Changes recognized in the income statement	5	6
Interest income/expense	5	6
Changes recognized in other income	– 6	0
Income/expense from the plan assets (less the income included in net interest income)	– 1	– 2
Changes in exchange rates	– 5	2
Other changes	– 13	– 11
Employer contributions	1	1
Pension benefits paid	– 14	– 12
Balance as at 31 December	**222**	**236**

For the coming financial year estimated contributions to plan assets to be paid by the employer amount to approximately EUR 1 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. 2016	31 Dec. 2015
Present value of defined benefit obligations	3 382	3 144
Present value of defined benefit obligations from unfunded plans	2 954	2 746
Present value of defined benefit obligations from wholly or partially funded plans	428	399
Fair value of plan assets	– 222	– 236
Obligations not covered by plan assets	3 160	2 908
Provisions for pensions	**3 160**	**2 908**

The weighted average maturity of the defined benefit obligation is 16.2 years (previous year: 16.0 years).

The following table shows the maturity analysis of the benefit payments in the current financial year:

EUR million	31 Dec. 2016
Maturity analysis	
Up to 1 year	107
More than 1 year to 5 years	480
More than 5 years to 10 years	677
More than 10 years to 15 years	788
More than 15 years	3 531

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 2016	**104**	**71**	**146**	**171**	**492**
Utilization	– 42	0	– 13	– 51	– 106
Reversals	– 3	– 52	– 65	– 25	– 145
Additions	52	41	113	133	338
Transfers	1	0	1	– 7	– 5
Discounting of non-current provisions	0		– 7	0	– 7
Compounding of non-current provisions	0		4	1	5
Changes not recognized in profit or loss	0	0	1	0	1
Currency translation differences	– 1	0	0	0	0
Balance as at 31 December 2016	**112**	**59**	**182**	**222**	**574**

The other personnel-related provisions included mainly provisions for staff anniversaries.

Plan assets amounting to EUR 1 million were set up 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 1 million were offset against the plan assets in line with IAS 19.128.

In total, provisions with a term of over 12 months' worth EUR 396 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. 2016	31 Dec. 2015
Current income tax liabilities	57	62
of which provisions for income tax	53	56
of which income tax liabilities to tax authorities	4	6
Deferred income tax liabilities	31	27
Total	**88**	**89**

Of the current income tax liabilities, EUR 57 million is due within one year (previous year: EUR 62 million). Deferred income tax liabilities amounting to EUR 31 million have a term of over 12 months (previous year: EUR 27 million).

For a detailed description of income tax liabilities, see Note 31.

51. Other liabilities.

EUR million	31 Dec. 2016	31 Dec. 2015
Liabilities from		
Other taxes	42	53
Employment	34	34
Deliveries and services	156	125
Finance leases	3	4
Advances received	101	94
Other miscellaneous liabilities	553	399
Total	**889**	**709**

Other liabilities with maturities of more than 12 months amounted to EUR 42 million (previous year: EUR 40 million).

For a detailed description of leasing business, see Note 69.

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. 2016	31 Dec. 2015
Typical silent partners' contributions	1 246	1 298
Subordinated liabilities	4 532	3 917
Capital generated from profit-participation rights	117	114
Total	**5 895**	**5 329**

During the calendar year subordinated liabilities of EUR 789 million (nominal amount) were newly raised. This figure compared with repayments of EUR 178 million (nominal amount). In addition, silent partners' contributions with a nominal amount of EUR 46 million were repaid.

Measurement and premiums and discounts are reported in »Subordinated capital«.

As at the reporting date, subordinated capital of EUR 1 184 million (previous year: EUR 566 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. 2016			31 Dec. 2015		
EUR million	Capital	Interest accrued in year under review	Total	Capital	Interest accrued in year under review	Total
Subordinated EUR bearer bonds	2 427	35	2 462	1 943	32	1 975
Subordinated EUR registered securities	1 357	14	1 371	1 234	15	1 249
Subordinated foreign currency bearer bonds	631	17	648	608	16	625
Total	**4 415**	**66**	**4 481**	**3 786**	**62**	**3 848**

The table above includes subordinated registered securities and bonds designated at fair value with nominal capital in the amount of EUR 142 million (previous year: EUR 144 million).

The interest expense on subordinated liabilities (incl. subordinated liabilities designated at fair value) is EUR – 155 million (previous year: EUR – 184 million).

Capital generated by 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. 2016 EUR million	Year of issue	Nominal amount	Interest rate in % p. a.	Maturity
Participation rights in bearer form				
	2010[1]	17	4.22	31 Dec. 2016
Registered participation rights				
Corporates		206	4.77 to 7.18	up to 2022
Banks		10	4.82	2020-12-31
Total		**233**		

1) issue was terminated with effect from 31 December 2016.

The table above include registered participation certificates designated at fair value with nominal capital in the amount of EUR 101 million (previous year: EUR 137 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 – 18 million (previous year: EUR – 19 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 2016.

At the end of the financial year, the following contributions had been made by silent partners:

Duration[1)]	Dividend payout as a percentage of the nominal amount	Nominal amount 31 Dec. 2016 EUR million	Nominal amount 31 Dec. 2015 EUR million
15 Feb. 1994 – 31 Dec. 2015 (terminated)	0.3	0.0	6.0
23 Nov. 1999 – 31 Dec. 2015	0.0	0.0	40.0
31 Dec. 1993 – 31 Dec. 2016[2)] (terminated)	1.36	64.7	64.7
8 Dec 1999 – 31 Dec. 2016[3)]	7.8 – 8.0	64.5	64.5
31 Dec. 1993 – 31 Dec. 2016 (terminated)	1.2	19.5	19.5
15 Nov. 1999 – 31 Dec. 2019	7.87	10.0	10.0
25 April 1999 – 31 Dec. 2019	5.05	30.0	30.0
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 July 2001 – 31 Dec. 2026[4)]	2.2	15.0	15.0
1 Oct. 1999 – 31 Dec. 2029	8.03 – 8.20	49.0	49.0
10 March 2000 – 31 Dec. 2030	8.05 – 8.25	10.0	10.0
2 July 2001 – 31 Dec. 2031	8.46	20.0	20.0
Silent partners' contributions with a fixed end of term		**332.7**	**378.7**

Expiry of the fixed interest period	Dividend payout as a percentage of the nominal amount	Nominal amount 31 Dec. 2016 EUR million	Nominal amount 31 Dec. 2015 EUR million
26 June 2017	2.83	200.0	200.0
28 Oct. 2021	3.92	3.2	3.2
30 Oct. 2021	3.92	86.3	86.3
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		**825.8**	**825.8**
Total		**1 158.5**	**1 204.5**

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 % at 1 Jan. 2017.
3) The future interest rate will be 0.00 %.
4) Annual adjustment of interest rates.
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 – 51 million (previous year: EUR – 53 million) for the financial year.

53. Equity.

EUR million	31 Dec. 2016	31 Dec. 2015
Share capital	3 484	3 484
Capital reserve	8 240	8 240
Retained earnings	999	1 062
Other income	348	413
Unappropriated profit/loss	10	425
Shareholders' equity	13 081	13 624
Equity attributable to non-controlling interests	38	19
Total	**13 119**	**13 643**

With regard to the presentation of gains and losses of financial liabilities designated at fair value through profit or loss, LBBW has opted for the voluntary early application of IFRS 9. Against this backdrop, »Other income« includes a measurement effect of EUR 24 million in connection with the measurement of LBBW's own credit rating.

Retained earnings include cumulative actuarial gains and losses after tax of EUR – 836 million (previous year: EUR – 682 million). The reduction in the discount rate for pension provisions from 2.18 % to 1.72 % led to an increase in actuarial losses after taking into account the associated deferred taxes.

The full write-down of goodwill weighed on net consolidated profit/loss, which led to a lower unappropriated profit/loss.

All told, the item »Equity» included taxes recognized directly in equity totaling EUR 353 million (previous year: EUR 300 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 on active markets are available, valuation procedures, prices for similar assets or liabilities, prices for identical assets or liabilities on non-active markets are used. Input parameters used for valuation procedures relate to parameters observable on the markets, if available. The application of these models and the use of these parameters requires assumptions and assessments on the part of the management, the extent of which depends on price transparency with regard to the financial instrument and its market and the complexity of the instrument. A significant amount of subjective assessment is necessary especially if no parameters observable on the markets are available.

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

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

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

Financial instruments	Valuation models	Material parameters
Interest rate swaps and options	Net present value method, Black-Scholes, replication and Copula-based models, Markov functional model and Libor market models	Yield curves, swaption volatility, cap volatility, correlations, mean reversion
Forward rate agreements	Net present value method	Yield curves
Forward commodity agreements, currency forwards	Net present value method	Commodity rates/exchange rates, yield curves
Equity/index options, equity index/dividend futures	Black-Scholes, local volatility model, net 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 bonds and borrower's note loans issued	Net present value method	Yield curves, own credit spread
Securitizations	Net present value method	Liquidity spreads, yield curves, prepayments, arrears and 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 carried 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, forward security agreements, money market transactions, borrower's note loans, loans
Positive fair values from hedging derivatives	Interest rate swaps and cross-currency interest rate swaps
Financial investments (AfS)	Securitizations, securities, forward security 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	Own bearer bonds and borrower's note loans issued
Negative fair values from hedging derivatives	Interest rate swaps and cross-currency interest rate swaps
Liabilities carried at amortized cost	
Deposits from banks	Loans, borrower's note loans, term money, money market transactions, securities repurchase transactions
Deposits from banks – of which finance leases	Finance lease agreements
Deposits from customers	Loans, borrower's note loans, term money, money market transactions, securities repurchase transactions
Deposits from customers – of which finance leases	Finance lease agreements
Securitized liabilities	Issued debentures, money market transactions
Other equity and 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) are 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.

EUR million	31 Dec. 2016 Carrying amount	31 Dec. 2016 Fair value	31 Dec. 2015 Carrying amount	31 Dec. 2015 Fair value
Cash and cash equivalents	**13 532**	**13 532**	**1 167**	**1 167**
Assets carried at fair value				
Trading assets	46 648	46 648	61 678	61 678
Derivatives	23 925	23 925	24 117	24 117
Currency-linked derivatives	4 316	4 316	4 032	4 032
Interest rate-linked derivatives	19 039	19 039	19 561	19 561
Credit derivatives	128	128	180	180
Share/index-linked derivatives	381	381	285	285
Commodity-linked and other derivatives	60	60	60	60
Equity instruments	689	689	750	750
Securities	9 014	9 014	14 460	14 460
Receivables	13 020	13 020	22 351	22 351
Financial assets designated at fair value	750	750	913	913
Equity instruments	203	203	185	185
Securities	97	97	278	278
Loans and receivables	450	450	450	450
Positive fair values from hedging derivatives	2 777	2 777	2 174	2 174
Interest rate-linked derivatives	2 769	2 769	2 163	2 163
Cross-currency interest rate swaps	7	7	11	11
Financial investments (AfS)	20 270	20 270	19 170	19 170
Equity instruments	899	899	1 041	1 041
Securities	19 371	19 371	18 129	18 129
Assets carried at amortized cost				
Loans and advances to banks after allowances for losses on loans and advances	39 277	40 316	30 237	31 362
Public-sector loans	25 793	26 869	22 781	23 893
Securities repurchase transactions	7 676	7 630	2 662	2 662
Other receivables	5 808	5 818	4 794	4 806
Loans and advances to customers after allowances for losses on loans and advances	110 415	116 231	107 665	112 715
Public-sector loans	17 879	20 493	17 273	19 674
Mortgage loans	30 236	32 697	30 907	33 515
Securities repurchase transactions	12 336	12 375	11 318	11 349
Other receivables	49 964	50 667	48 167	48 177
of which finance leases	4 866	5 147	4 512	4 722
Financial investments (LaR)	5 423	5 495	6 060	6 109
Equity instruments	5	5	7	7
Securitizations	297	300	323	324
Government bonds	4 301	4 365	5 501	5 547
Other securities	820	824	228	231
Non-current assets and disposal groups held for sale	**28**	**28**	**104**	**104**

Equity and liabilities.

EUR million	31 Dec. 2016 Carrying amount	31 Dec. 2016 Fair value	31 Dec. 2015 Carrying amount	31 Dec. 2015 Fair value
Liabilities measured at fair value				
Trading liabilities	63 090	63 090	67 278	67 278
Derivatives	21 394	21 394	23 445	23 445
Currency-linked derivatives	4 528	4 528	4 757	4 757
Interest rate-linked derivatives	15 624	15 624	17 413	17 413
Credit derivatives	346	346	476	476
Share/index-linked derivatives	858	858	727	727
Commodity-linked and other derivatives	37	37	73	73
Delivery obligations from short sales of securities	1 349	1 349	550	550
Deposits	28 880	28 880	36 214	36 214
Securitized liabilities	11 464	11 464	7 069	7 069
Other financial liabilities	2	2	0	0
Financial liabilities designated at fair value	2 768	2 768	3 257	3 257
Deposits	1 537	1 537	1 549	1 549
Securitized liabilities	1 231	1 231	1 708	1 708
Negative fair values from hedging derivatives	3 989	3 989	3 528	3 528
Interest rate-linked derivatives	3 916	3 916	3 441	3 441
Cross-currency interest rate swaps	73	73	87	87
Liabilities carried at amortized cost				
Deposits from banks	44 568	45 497	44 248	45 056
Securities repurchase transactions	3 298	3 304	8 676	8 675
Borrower's note loans	4 125	4 304	4 656	4 868
Other liabilities	37 145	37 888	30 916	31 512
Deposits from customers	70 641	71 803	62 540	63 898
Current account liabilities	34 422	34 419	34 753	34 769
Borrower's note loans	2 026	2 175	2 351	2 517
Registered covered bonds	4 429	5 249	4 934	5 808
Securities repurchase transactions	5 038	4 968	2 745	2 752
Other liabilities	24 726	24 991	17 757	18 052
Securitized liabilities	34 355	35 097	29 424	30 182
Other equity and liabilities – of which finance leases	3	3	4	4
Subordinated capital	5 895	5 983	5 329	5 380
Subordinated liabilities	4 532	4 781	3 917	4 128
Capital generated from profit-participation rights	117	141	114	140
Silent partners' contributions	1 246	1 060	1 298	1 112

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).
- 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. 2016	Prices traded on active markets (Level I) 31 Dec. 2015	Valuation method – on the basis of externally observable parameters (Level II) 31 Dec. 2016	Valuation method – on the basis of externally observable parameters (Level II) 31 Dec. 2015	Valuation method – on the basis of not externally observable parameters (Level III) 31 Dec. 2016	Valuation method – on the basis of not externally observable parameters (Level III) 31 Dec. 2015
Cash and cash equivalents	**181**	**140**	**13 351**	**1 027**	**0**	**0**
Assets carried at fair value						
Trading assets	3 862	6 413	41 915	54 573	871	691
Derivatives	38	295	23 553	23 395	333	426
Currency-linked derivatives	0	0	4 200	3 917	116	115
Interest rate-linked derivatives	0	0	18 826	19 255	213	306
Credit derivatives	0	0	128	179	0	0
Share/index-linked derivatives	0	259	377	21	4	5
Commodity-linked and other derivatives	38	37	22	23	0	0
Equity instruments	397	309	292	441	0	0
Securities	3 427	5 808	5 587	8 651	0	0
Receivables	0	0	12 483	22 086	538	265
Financial assets designated at fair value	0	0	745	901	4	12
Equity instruments	0	0	199	173	4	12
Securities	0	0	97	278	0	0
Receivables	0	0	450	450	0	0
Positive fair values from hedging derivatives	0	0	2 777	2 174	0	0
Interest rate-linked derivatives	0	0	2 769	2 163	0	0
Cross-currency interest rate swaps	0	0	7	11	0	0
Financial investments (AfS)	16 573	16 104	3 313	2 602	384	464
Equity instruments	524	585	0	0	376	456
Securities	16 049	15 519	3 313	2 602	8	8
Investment property	0	0	0	0	560	649
Assets carried at amortized cost						
Loans and advances to banks after allowances for losses on loans and advances	0	0	12 819	4 789	27 497	26 572
Public-sector loans	0	0	3 016	788	23 853	23 105
Securities repurchase transactions	0	0	7 630	2 662	0	0
Other receivables	0	0	2 174	1 339	3 645	3 467
Loans and advances to customers after allowances for losses on loans and advances	0	0	24 722	21 855	91 509	90 860
Public-sector loans	0	0	6 360	5 714	14 133	13 960
Mortgage loans	0	0	108	1 594	32 589	31 920
Securities repurchase transactions	0	0	12 375	11 349	0	0
Other receivables	0	0	5 880	3 198	44 788	44 979
of which finance leases	0	0	0	0	5 147	4 722
Financial investments (LaR)	21	15	5 169	5 797	305	297
Equity instruments	0	0	0	0	5	7
Securitizations	0	0	0	34	300	290
Government bonds	0	0	4 365	5 547	0	0
Other securities	21	15	804	216	0	0
Non-current assets and disposal groups held for sale	**0**	**0**	**0**	**0**	**80**	**153**

Equity and liabilities.

EUR million	Prices traded on active markets (Level I)		Valuation method – on the basis of externally observable parameters (Level II)		Valuation method – on the basis of not externally observable parameters (Level III)	
	31 Dec. 2016	31 Dec. 2015	31 Dec. 2016	31 Dec. 2015	31 Dec. 2016	31 Dec. 2015
Liabilities measured at fair value						
Trading liabilities	137	1 255	62 621	65 702	331	321
Derivatives	28	707	21 035	22 417	331	321
Currency-linked derivatives	0	0	4 518	4 745	11	11
Interest rate-linked derivatives	0	0	15 431	17 109	194	304
Credit derivatives	0	0	223	475	123	1
Share/index-linked derivatives	0	639	854	83	4	5
Commodity-linked and other derivatives	28	68	9	5	0	0
Delivery obligations from short sales of securities	109	547	1 240	2	0	0
Deposits	0	0	28 880	36 214	0	0
Securitized liabilities	0	0	11 464	7 069	0	0
Other financial liabilities	0	0	2	0	0	0
Financial liabilities designated at fair value	0	0	2 143	2 565	626	692
Deposits	0	0	1 499	1 511	38	38
Securitized liabilities	0	0	644	1 054	587	654
Negative fair values from hedging derivatives	0	0	3 989	3 528	0	0
Interest rate-linked derivatives	0	0	3 916	3 441	0	0
Cross-currency interest rate swaps	0	0	73	87	0	0
Liabilities carried at amortized cost						
Deposits from banks	0	0	44 618	44 063	878	993
Securities repurchase transactions	0	0	3 304	8 675	0	0
Borrower's note loans	0	0	4 304	4 868	0	0
Other liabilities	0	0	37 010	30 519	878	993
Deposits from customers	0	0	71 144	63 225	659	674
Current account liabilities	0	0	34 419	34 769	0	0
Borrower's note loans	0	0	2 175	2 517	0	0
Registered covered bonds	0	0	5 249	5 808	0	0
Securities repurchase transactions	0	0	4 968	2 752	0	0
Other liabilities	0	0	24 332	17 378	659	674
Securitized liabilities	0	0	33 231	28 774	1 865	1 408
Other liabilities – of which finance leases	0	0	0	0	3	4
Subordinated capital	0	0	5 983	5 329	0	51
Subordinated liabilities	0	0	4 781	4 078	0	50
Capital generated from profit-participation rights	0	0	141	139	0	1
Silent partners' contributions	0	0	1 060	1 112	0	0

Transfers to levels.

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

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

The following transfers 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. 2016	Transfers from Level I to Level II 31 Dec. 2015	Transfers from Level II to Level I 31 Dec. 2016	Transfers from Level II to Level I 31 Dec. 2015
Assets carried at fair value				
Trading assets	485	47	136	522
Derivatives	372	0	0	0
Share/index derivatives	372	0	0	0
Securities	113	47	136	522
Financial investments (AfS)	0	72	115	69
Securities	0	72	115	69

Equity and liabilities.

EUR million	Transfers from Level I to Level II 31 Dec. 2016	Transfers from Level I to Level II 31 Dec. 2015
Liabilities measured at fair value		
Trading liabilities	1 073	2
Derivatives	801	0
Share/index-linked derivatives	801	0
Delivery obligations from short sales of securities	272	2

In the year under review LBBW undertook reclassifications from Level I to Level II because there were no listed prices from active markets for corresponding securities. Moreover, for listed equity/index-linked derivatives the fair value measurement was switched from the stock market price to the model calculation; as a result, the corresponding derivatives are now allocated to Level II.

Reclassifications from Level II to Level I in the opposite direction took place as listed prices from active markets became available for the corresponding securities again.

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. 2016

	Trading assets			
	Derivatives			Receivables
EUR million	Currency related derivatives	Interest rate-linked derivatives	Share/index-linked derivatives	
Carrying amount as at 1 January 2016	**115**	**306**	**5**	**265**
Gains and losses recognized in net consolidated profit/loss	11	– 58	– 1	0
of which net interest income	0	15	0	0
of which net trading income	10	– 72	– 1	0
of which net gains/losses from financial instruments designated at fair value	0	0	0	0
of which net gains/losses from financial investments	0	0	0	0
of which other earnings items	0	0	0	0
Income and expenses recognized in Other income[1]	0	0	0	0
Additions through acquisitions	0	0	0	365
Disposals through sales	0	0	0	– 256
Repayments/offsetting	– 10	– 37	0	– 9
Changes in the scope of consolidation	0	0	0	0
Changes from foreign currency translation	0	0	0	0
Transfers	0	0	0	0
Transfers to Level III	0	2	0	172
Transfers in accordance with IFRS 5	0	0	0	0
Carrying amount as at 31 December 2016	**116**	**213**	**4**	**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
of which net interest income	0	15	0	0
of which net trading income	11	– 72	– 1	0
of which net gains/losses from financial instruments designated at fair value	0	0	0	0
of which net gains/losses from financial investments	0	0	0	0
of which other earnings items	0	0	0	0

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

Financial assets designated at fair value		Financial investments (AfS)		Investment property	Non-current assets and disposal groups held for sale	Total
Equity instruments	Securities	Equity instruments	Securities			
12	**0**	**456**	**8**	**649**	**153**	**1 970**
– 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**	**560**	**80**	**1 899**
– 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

31 Dec. 2015

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

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

	Financial assets designated at fair value		Financial investments (AfS)		Investment property	Non-current assets and disposal groups held for sale	Total
	Equity instruments	Securities	Equity instruments	Securities			
	25	**25**	**542**	**21**	**705**	**16**	**1 934**
	– 4	1	– 13	0	– 3	– 1	– 92
	0	0	0	0	0	0	1
	0	0	1	0	0	0	– 71
	– 4	1	0	0	0	0	– 3
	0	0	– 14	0	0	0	– 14
	0	0	0	0	– 3	– 1	– 4
	0	0	87	0	0	0	87
	0	0	30	6	157	0	449
	– 6	– 1	– 26	– 10	– 84	– 64	– 209
	– 2	– 4	– 29	0	0	0	– 109
	0	0	16	0	0	0	16
	0	0	0	– 9	– 11	0	– 20
	0	0	0	0	– 65	0	– 65
	0	– 21	0	0	0	0	– 21
	0	0	– 153	0	– 49	202	0
	12	**0**	**456**	**8**	**649**	**153**	**1 970**
	– 5	0	– 9	0	– 3	– 1	– 96
	0	0	0	0	0	0	1
	0	0	1	0	0	0	– 78
	– 5	0	0	0	0	0	– 4
	0	0	– 10	0	0	0	– 10
	0	0	0	0	– 3	– 1	– 4

Equity and liabilities.

31 Dec. 2016	Trading liabilities				Financial liabilities designated at fair value		Total
	Derivatives				Deposits	Securitized liabilities	
EUR million	Currency-linked derivatives	Interest rate-linked derivatives	Credit derivatives	Share/index-based 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

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

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. 2016	31 Dec. 2015	31 Dec. 2016	31 Dec. 2015
Assets carried at fair value				
Trading assets	3.0	9.5	– 2.3	– 3.3
Derivatives	2.8	3.8	– 2.1	– 3.1
Interest rate-linked derivatives	2.5	3.1	– 1.8	– 2.2
Share/index-linked derivatives	0.0	0.2	– 0.1	– 0.3
Currency-linked derivatives	0.3	0.5	– 0.3	– 0.6
Receivables	0.2	5.7	– 0.2	– 0.2
Financial investments (AfS)	14.0	16.8	– 10.8	– 15.1
Equity instruments	14.0	16.8	– 10.8	– 15.1
Total	**17.0**	**26.3**	**– 13.1**	**– 18.4**

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. 2016	31 Dec. 2015	31 Dec. 2016	31 Dec. 2015
Liabilities measured at fair value				
Trading liabilities	7.7	2.3	– 8.4	– 2.9
Derivatives	7.7	2.3	– 8.4	– 2.9
Interest rate-linked derivatives	1.3	1.6	– 1.9	– 2.4
Credit derivatives	6.2	0.1	– 6.2	– 0.1
Share/index-linked derivatives	0.1	0.3	0.0	– 0.2
Currency-linked derivatives	0.2	0.3	– 0.2	– 0.3
Financial liabilities designated at fair value	0.1	0.1	– 0.1	– 0.1
Securitized liabilities	0.1	0.1	– 0.1	– 0.1
Total	**7.8**	**2.4**	**– 8.4**	**– 3.0**

Significant non-observable Level III parameters.

The significant non-observable parameters of the financial instruments measured at fair value and classified as Level III and investment property are shown in the following tables: 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. 2016 EUR million	Valuation techniques	Significant non-observable parameters	Spread	Parameter shift
Assets carried at fair value				
Trading assets				
Derivatives				
Interest rate-linked derivatives	Option price model	Interest rate correlation	– 46 % – 99 %	rel. – 20 %/+ 10 %
Share/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)				
Equity instruments	Net asset value method --- Discounted cash flow method --- Income value method	n/a --- Capitalization rate --- Beta factor	n/a --- 0.59 % – 8.51 % --- 0.81 – 1.23	n/a --- individually per Instrument --- rel. + 5 % /– 5 %
Investment property	Discounted cash flow method	Rent dynamization ---- Discounting interest rate ---- Basic maintenance costs ---- Administrative costs (as a % of the target rent)	1.5 % ---- 4.8 % – 10.0 % ---- EUR 0 – 25/m² ---- 0.0 % – 6.5 %	n/a

31 Dec. 2015 EUR million	Valuation techniques	Significant non-observable parameters	Spread	Parameter shift
Assets carried at fair value				
Trading assets				
Derivatives				
Interest rate-linked derivatives	Option price model	Interest rate correlation	– 46 % – 99 %	rel. – 20 %/+ 10 %
Credit derivatives	Correlation price model	Credit correlation	50 % – 81 %	abs. – 30 %/+ 10 %
Share/index-linked derivatives	Option price model	Equity-foreign exchange correlation	5 %	abs. – 25 %/+ 15 %
Currency-linked derivatives	Option price model	Currency correlation	67 %	abs. – 30 %/+ 30 %
Receivables	Net present value method	Credit spread (bp)	75 – 220	rel. – 30 %/+ 30 %
Financial investments (AfS)				
Equity instruments	Net asset value method --- Discounted cash flow method --- Income value method	n/a --- Capitalization rate --- Beta factor	n/a --- 1.26 % – 6.48 % --- 0.29 – 1.23	n/a --- individually per Instrument --- rel. + 5 % /– 5 %
Investment property	Discounted cash flow method	Rent dynamization ---- Discount rate ---- Rental loss risk --- Basic maintenance costs ---- Administrative costs (as a % of the target rent)	1.5 % ---- 4.0 % – 8.3 % ---- 2.0 % – 5.0 % --- EUR 0 – 19/m2 ---- 1.0 % – 6.5 %	n/a

Equity and liabilities.

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 %
Share/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 %
Securitized liabilities	Option price model --- Option price model	Interest rate correlation --- Currency correlation	21 % – 99 % --- 26 %	rel. – 20 % /+ 10 % --- abs. – 30 % /+ 30 %

31 Dec. 2015 EUR million	Valuation techniques	Significant non-observable parameters	Spread	Parameter shift
Liabilities measured at fair value				
Trading liabilities				
Derivatives				
Interest rate-linked derivatives	Option price model	Interest rate correlation	– 46 % – 99 %	rel. – 20 %/+ 10 %
Credit derivatives	Correlation price model	Credit correlation	50 % – 81 %	abs. – 30 %/+ 10 %
Share/index-linked derivatives	Option price model	Equity-foreign exchange correlation	5 %	abs. – 25 %/+ 15 %
Currency-linked derivatives	Option price model	Currency correlation	67 %	abs. – 30 %/+ 30 %
Financial liabilities designated at fair value				
Deposits	Option price model	Interest rate correlation	21 % – 99 %	rel. – 20 %/+ 10 %
Securitized liabilities	Option price model --- Option price model	Interest rate correlation --- Currency correlation	21 % – 99 % --- 67 %	rel. – 20 % /+ 10 % --- abs. – 30 % /+ 30 %
Other financial liabilities	Option price model	Interest rate correlation	21 % – 99 %	rel. – 20 %/+ 10 %

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

Day One profit or loss.

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

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

LBBW 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 2016 financial year compared with year-end 2015, which were accrued due to the use of major unobservable parameters for financial instruments recognized at fair value.

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

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.

Assets.

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. 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.

For the previous year the following information applies: The maximum default risk for loans and receivables designated at fair value was EUR 450 million as at 31 December 2015. Of these financial assets, EUR 1 million was attributable to credit rating-induced changes in fair value during the previous year under review. The amount by which the fair value changed due to changes in credit spreads since designation came to EUR – 7 million. For financial liabilities designated at fair value, EUR 1 million was accounted for by credit rating-induced changes in fair value in connection with the measurement of the own credit rating. The amount by which fair values have changed due to changes in the credit spreads of LBBW since designation came to EUR 60 million. For the calculation of the credit rating-induced changes in fair value two values were calculated: one based on the original spread and one based on the current spread. The changes to fair value induced by changes to credit ratings were implicitly derived from these two measurements. The current fair value exceeded the contractually agreed repayment amount of the issued liabilities at maturity by EUR 629 million.

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. 2016	1 Jan. – 31 Dec. 2015
Financial assets carried at amortized cost	254	– 171
Financial liabilities/assets held for trading	220	160
Financial liabilities/assets designated at fair value	– 9	55
Available-for-sale financial assets	402	– 102
Financial liabilities measured at amortized cost	– 134	– 15

59. Impairment losses on financial assets.

EUR million	1 Jan. – 31 Dec. 2016	1 Jan. – 31 Dec. 2015
Assets carried at fair value		
Financial investments (AfS)	– 3	– 13
Equity instruments	– 3	– 13
Securities	– 1	– 1
Assets carried at amortized cost		
Loans and advances to banks	– 7	– 4
Other receivables	– 6	– 4
Loans and advances to customers	– 296	– 392
Public-sector loans	– 5	– 8
Mortgage loans	– 53	– 82
Other receivables	– 238	– 302
of which finance leases	– 23	– 29
Total	**– 306**	**– 410**

60. Reconciliation of carrying amounts to categories.

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

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 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					34 355	34 355
Financial liabilities 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 hedging derivatives.
2) Excluding negative fair values from hedging derivatives.

31 Dec. 2015 EUR million	Loans and receivables	Available for sale	Held for trading	Fair value option	Other liabilities	Total
Loans and advances to banks after allowances for losses on loans and advances	30 237					30 237
Loans and advances to customers after allowances for losses on loans and advances	107 665					107 665
Financial assets at fair value through profit or loss[1)]			61 678	913		62 591
Financial investments	6 060	19 170				25 230
Non-current assets and disposal groups held for sale[1)]	0	104	0	0		104
Deposits from banks					44 248	44 248
Deposits from customers					62 540	62 540
Securitized liabilities					29 424	29 424
Financial liabilities at fair value through profit or loss[2)]			67 278	3 257		70 536
Subordinated capital					5 329	5 329

1) Excluding positive fair values from hedging derivatives.

2) Excluding negative fair values from hedging derivatives.

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 64.

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 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	5 543	34 355
Financial liabilities 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

31 Dec. 2015 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	5 910	4 008	11 331	8 995	30 245
Loans and advances to customers	19 125	12 744	43 330	33 586	108 785
Financial assets at fair value through profit or loss	23 528	8 506	15 773	16 957	64 765
Financial investments	1 468	957	15 861	6 943	25 230
Non-current assets and disposal groups held for sale	80	24	0	0	104
Deposits from banks	10 338	5 449	16 817	11 643	44 248
Deposits from customers	50 792	3 251	3 610	4 887	62 540
Securitized liabilities	3 394	5 903	14 166	5 960	29 424
Financial liabilities at fair value through profit or loss	38 982	8 841	10 032	16 209	74 063
Subordinated capital	139	478	1 113	3 600	5 329

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. 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.

31 Dec. 2015 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	– 40 299	– 17 276	– 24 245	– 32 103	– 22 510
Liabilities from derivatives	– 130	– 130	– 738	– 2 075	– 1 498
Total	**– 40 429**	**– 17 406**	**– 24 983**	**– 34 178**	**– 24 008**
Irrevocable loan commitments and guarantees[1)]	– 23 855				
Savings and demand deposits, securitization from interbank accounts	– 41 885				

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. Reclassifications.

In the course of the financial markets crisis in 2008, in the course of which results were burdened significantly by fair value fluctuations (mainly in securitization products), the IASB made changes to IAS 39 and IFRS 7 (Reclassification of Financial Assets) that were endorsed by the EU. On this basis, certain non-derivative financial instruments could be reclassified retrospectively from 1 July 2008 into the LaR category, leading to measurement at amortized cost instead of the – usually – lower current fair value.

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

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

EUR million	31 Dec. 2016 Carrying amount	31 Dec. 2016 Fair value	31 Dec. 2015 Carrying amount	31 Dec. 2015 Fair value	1 Jul. 2008 Nominal amount	1 Jul. 2008 Carrying amount
Held for trading reclassified as loans and receivables	**7**	**7**	**18**	**19**	**935**	**913**
of which securitization transactions	0	0	0	0	134	128
of which other securities	7	7	18	19	801	785
Available for sale reclassified as loans and receivables	**0**	**0**	**37**	**38**	**29 023**	**27 373**
of which securitization transactions	0	0	0	0	14 643	13 302
of which other securities	0	0	37	38	14 380	14 071
Total	**7**	**7**	**55**	**57**	**29 958**	**28 286**

The nominal volume of the securities reclassified out of the held-for-trading category was EUR 7 million as at 31 December 2016 (previous year: EUR 19 million), which was accounted for completely by other securities as in the previous year.

For the securities reclassified as available-for-sale no holdings remained as at 31 December 2016 (previous year: EUR 38 million).

The reclassified portfolios contributed EUR – 1 million (previous year: EUR – 2 million) to the net consolidated profit/loss in the financial year.

If there had been no reclassification, the positive contribution to the results would have been EUR 1 million (previous year: EUR 1 million) as at 31 December 2016. The fair value changes of reclassified available-for-sale securities would have had no impact on »Other income« (previous year: burden of EUR – 1 million).

Over the year as a whole, original interest payments in the amount of EUR 1 million were collected from reclassified portfolios (previous year: EUR 2 million).

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

64. Details about the volume of derivatives.

31 Dec. 2016	Nominal values – 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
Share/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**

31 Dec. 2015	Nominal values – 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	106 628	41 592	18 205	1 044	167 469	2 647	2 620
Currency options	807	1 709	2 217	0	4 732	98	82
Purchases	436	831	1 053	0	2 319	98	0
Sales	371	878	1 164	0	2 413	0	82
Interest-rate/currency swaps	2 153	5 773	17 641	10 715	36 282	1 299	2 141
Currency-linked derivatives	**109 588**	**49 073**	**38 063**	**11 759**	**208 483**	**4 043**	**4 843**
Forward rate agreements	10 264	15 300	4 000	0	29 564	0	0
Interest rate swaps	89 140	132 218	294 663	311 183	827 204	18 964	16 638
Interest rate options	2 751	6 070	32 767	31 331	72 919	2 369	3 818
Purchases	1 183	2 598	13 745	12 272	29 798	2 227	155
Sales	1 567	3 472	19 022	19 059	43 121	143	3 663
Caps/floors/collars	1 046	2 154	15 166	13 554	31 920	358	254
Exchange-traded interest rate products	16 191	41 368	5 120	0	62 679	0	0
Other interest rate contracts	1 190	1 007	281	0	2 478	32	145
Interest rate-linked derivatives	**120 582**	**198 117**	**351 997**	**356 068**	**1 026 764**	**21 723**	**20 854**
Credit derivatives (protection seller)	330	1 812	7 897	1 182	11 221	126	81
Credit derivatives (protection buyer)	730	1 821	7 568	1 903	12 021	54	395
Credit derivatives	**1 060**	**3 633**	**15 465**	**3 084**	**23 242**	**180**	**476**
Exchange-traded products	2 387	4 669	5 579	332	12 968	259	639
Equity forward contracts	2	0	0	0	2	0	0
Stock options	111	358	216	464	1 149	12	31
Purchases	68	194	125	156	543	12	0
Sales	44	163	91	309	607	0	31
Other equity derivatives	94	235	939	0	1 269	14	57
Share/index-linked derivatives	**2 594**	**5 262**	**6 734**	**797**	**15 388**	**285**	**727**
Commodities	665	715	56	0	1 437	60	73
Commodity-related and other derivatives	**665**	**715**	**56**	**0**	**1 437**	**60**	**73**
Total	**234 489**	**256 801**	**412 316**	**371 708**	**1 275 314**	**26 291**	**26 973**

The treatment of the fair values of exchange-traded futures and of interest rate swaps that are cleared via a central counterparty follows the accounting methods. Accordingly, the variation margin received is offset by the fair values that have already been recognized through profit or loss.

The 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. 2016	31 Dec. 2015	31 Dec. 2016 Positive	31 Dec. 2015 Positive	31 Dec. 2016 Negative	31 Dec. 2015 Negative
Banks in OECD countries	625 341	560 363	17 489	17 925	20 140	21 969
Banks in non-OECD countries	10 112	12 110	50	69	417	244
Public-sector agencies in OECD countries	41 072	40 469	4 928	4 247	1 204	1 211
Other counterparties	872 209	662 373	4 235	4 050	3 622	3 548
Total	**1 548 734**	**1 275 314**	**26 702**	**26 291**	**25 383**	**26 973**

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. 2016 Positive	31 Dec. 2015 Positive	31 Dec. 2016 Negative	31 Dec. 2015 Negative
Derivative financial instruments and economic hedging derivatives used for trading	23 925	24 117	21 394	23 445
Derivative financial instruments used for fair value hedging	2 777	2 174	3 989	3 528
Total	**26 702**	**26 291**	**25 383**	**26 973**

The German Federal Financial Supervisory Authority (BaFin) had initially issued a general decree on 9 June 2016 (Ref.: ED WA -Wp 1000-2016/0001) in response to a decision of the German Federal Court of Justice (Bundesgerichtshof – BGH) on 9 June 2016 with regard to Section 104 of the German Insolvency Code (Insolvenzordnung, InsO). Since 26 December 2016, the Third Act Amending the InsO has been in force, which has adjusted Section 104 of the InsO for clarification. This means that the legal position compared to the period before and after the ruling by the BGH has improved. The statutory changes to Section 104 InsO do not result in any impact on LBBW.

65. 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. 2016 EUR million	Transferred assets continue to be recognized in full Carrying amount of transferred assets	Carrying amount of the associated liabilities
Assets carried at fair value		
Trading assets	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

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

66. 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. Assets in the amount of EUR 42 397 million (previous year: EUR 45 978 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 23 285 million (previous year: EUR 17 318 million). Of the collateral received, the LBBW Group is required to return collateral with a total fair value of EUR 23 285 million (previous year: EUR 17 318 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 5 851 million (previous year: EUR 1 973 million).

67. 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. 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**

31 Dec. 2015				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	55	– 54	1	0	0	0	1
Receivables from securities repurchase and lending agreements	19 256	– 3 952	15 303	– 2 209	– 12 989	– 5	101
Derivatives	37 232	– 13 116	24 117	– 15 982	– 133	– 3 017	4 984
Total	**56 543**	**– 17 122**	**39 421**	**– 18 192**	**– 13 122**	**– 3 022**	**5 086**

As at 31 December 2016 the net amount of recognized current account claims is shown in the balance sheet item loans and advances to banks at EUR 3 million (previous year: EUR 1 million) and in loans and advances to customers at EUR 1 million (previous year: EUR 0 million).

The respective net amounts of the securities repurchase and lending agreements are recognized in the following balance sheet items: EUR 7 716 million in loans and advances to banks, (previous year: EUR 2 772 million), EUR 12 318 million in loans and advances to customers (previous year: EUR 11 319 million) as well as EUR 673 million in financial assets measured at fair value through profit or loss (previous year: EUR 1 212 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.

Equity and liabilities.

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**

31 Dec. 2015				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	287	– 54	232	0	0	0	232
Liabilities from securities repurchase and lending agreements	15 357	– 3 952	11 405	– 2 209	– 9 195	0	0
Derivatives	37 273	– 13 116	24 157	– 15 982	– 45	– 6 780	1 349
Total	**52 916**	**– 17 122**	**35 794**	**– 18 192**	**– 9 241**	**– 6 780**	**1 582**

As at 31 December 2016, the net amount of recognized current account claims was shown in deposits from banks at EUR 12 million (previous year: EUR 12 million) and in deposits from customers at EUR 135 million (previous year: EUR 220 million).

The respective net amounts of the securities repurchase and lending agreements are recognized in the following balance sheet items: EUR 3 298 million in loans and advances to banks (previous year: EUR 8 677 million) and EUR 4 946 million in loans and advances to customers (previous year: EUR 2 728 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.

Other notes.

68. 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. 2016	31 Dec. 2015
Assets with restrictions on disposal		
Loans and advances to banks	20 364	20 186
Loans and advances to customers	41 300	38 243
Financial assets at fair value through profit or loss	8 192	15 961
Financial investments (AfS)	3 584	3 298
Other	926	879
Total	**74 366**	**78 567**

The assets with significant restrictions comprise mainly the EUR 36 billion (previous year: EUR 33 billion) in cover assets in the covered bond business, financial assets of EUR 28 billion (previous year: EUR 34 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 7 billion (previous year: EUR 8 billion).

Shares in consolidated structured entities.

A total of 10 (previous year: 13) 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 2016, liquidity lines in the amount of EUR 2 664 million (previous year: EUR 2 148 million) were provided to the consolidated structured entities.

Shares in joint agreements and associates.

One joint venture 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 is shown in the following table:

EUR million	GIZS GmbH & Co. KG, Stuttgart [1), 2)] 31 Dec. 2016	31 Dec. 2015
Revenues	39	0
Scheduled amortization	– 2	0
Profit/loss from continuing operations	– 3	– 7
Net consolidated total comprehensive income	**– 3**	**– 7**
Current assets	15	27
Cash and cash equivalents	12	25
Other current assets	3	2
Non-current assets	12	6
Short-term liabilities	12	15
Current financial liabilities	12	15
Net assets of the joint venture	**15**	**18**
Share of capital (in %)	33	33
Share of net assets	5	6
Other adjustments	– 5	0
Carrying amount of the equity investment	**0**	**6**

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.

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)]		Vorarlberger Landes- und Hypothekenbank AG, Bregenz [1), 2)]	
EUR million	31 Dec. 2016	31 Dec. 2015	31 Dec. 2016	31 Dec. 2015
Revenues	29	79	384	333
Profit/loss from continuing operations	18	59	83	87
Net consolidated profit/loss in equity	8	6	1	– 7
Net consolidated total comprehensive income	**26**	**64**	**85**	**80**
Current assets	133	163	3 245	3 281
Non-current assets	238	262	10 002	10 536
Short-term liabilities	5	27	6 638	5 592
Non-current liabilities	8	9	5 597	7 296
Contingent liabilities	1	1	375	386
Net assets of the associate	**359**	**388**	**1 012**	**930**
Share of capital (in %)	40	40	24	24
Share of net assets	144	155	243	223
Other adjustments	– 42	– 52	– 126	– 106
Carrying amount of the equity investment	**101**	**104**	**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.

Vorarlberger Landes- und Hypothekenbank 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 22 million (previous year: EUR 92 million) from its equity investment in BWK GmbH Unternehmensbeteiligungsgesellschaft and EUR 1 million (previous year: EUR 1 million) from Vorarlberger Landes- und Hypothekenbank 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. 2016	31 Dec. 2015	31 Dec. 2016	31 Dec. 2015
Portion of the profit or loss from continuing operations	0	2	– 1	2
Share in income recognized directly in equity	0	2	0	0
Share in net consolidated total comprehensive income	1	4	– 1	2
Total carrying amounts of the Group shares	8	7	7	6

Other unrecognized liabilities amounting to EUR 5 million (previous year: EUR 9 million), exist in connection with the shares in associates and joint ventures, consisting of contingent liabilities of EUR 4 million (previous year: EUR 6 million) and irrevocable loan commitments of EUR 1 million (previous year: EUR 3 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 non-consolidated 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 bonds, 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:

	Securitization vehicle		Funds		Financing companies		Other		Total	
EUR million	31 Dec. 2016	31 Dec. 2015	31 Dec. 2016	31 Dec. 2015	31 Dec. 2016	31 Dec. 2015	31 Dec. 2016	31 Dec. 2015	31 Dec. 2016	31 Dec. 2015
Scope of the structured entities	20 264	15 386	260 809	299 217	46 127	18 622	774	6 171	327 974	339 396

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 31 Dec. 2016	Securitization vehicle 31 Dec. 2015	Funds 31 Dec. 2016	Funds 31 Dec. 2015	Financing companies 31 Dec. 2016	Financing companies 31 Dec. 2015	Other 31 Dec. 2016	Other 31 Dec. 2015	Total 31 Dec. 2016	Total 31 Dec. 2015
Assets										
Receivables	6428	7361	2289	2196	1697	2224	0	0	10414	11782
Loans and advances to banks	30	26	0	0	0	0	0	0	30	26
Loans and advances to customers	6398	7335	2289	2196	1697	2224	0	0	10384	11756
Financial assets at fair value through profit or loss	4	396	597	699	19	– 42	636	963	1257	2017
Trading assets	4	384	396	526	19	14	636	850	1055	1774
Positive fair values from derivative financial instruments	1	1	0	0	0	1	0	0	1	2
Fair value option	0	12	201	172	0	– 57	0	114	201	241
Financial investments	297	323	0	0	47	50	0	0	344	373
Other assets	0	0	1	0	0	0	0	0	1	0
Total assets	**6729**	**8080**	**2887**	**2895**	**1763**	**2233**	**636**	**963**	**12016**	**14171**
Equity and liabilities										
Liabilities	1551	1434	3367	1969	219	194	0	0	5138	3597
Deposits from customers	1551	1434	3367	1969	219	194	0	0	5138	3597
Financial liabilities at fair value through profit or loss	0	1	2018	2896	0	1	0	0	2018	2897
Trading liabilities	0	1	2018	2846	0	1	0	0	2018	2848
Fair value option	0	0	0	50	0	0	0	0	0	50
Subordinated capital	0	0	0	5	0	0	0	0	0	5
Total equity and liabilities	**1552**	**1435**	**5385**	**4870**	**219**	**195**	**0**	**0**	**7156**	**6499**
Off-balance-sheet obligations	0	6	22	27	206	180	0	0	228	213

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 220 million (previous year: EUR 65 million) and EUR 23 million (previous year: EUR 86 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 25 727 million (previous year: EUR 11 145 million) while that for derivatives with a negative replacement value is EUR 2 697 million (previous year: EUR 8 538 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 71).

LBBW Group received interest income and fee and commission income from financing its shares in these non-consolidated 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 founded by LBBW Group and/or start-up capital provided by LBBW.

LBBW received gross income of EUR 6 million (previous year: EUR 5 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. Assets totaling EUR 3 957 million (previous year: EUR 724 million) were transferred from third parties to sponsored, non-consolidated structured entities within the scope of preliminary sales and replenishment agreements in 2016.

69. 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. 2016	31 Dec. 2015
Gross investment value	**5 410**	**5 060**
Up to 1 year	1 806	1 730
More than 1 year to 5 years	3 208	2 953
More than 5 years	396	377
– Unrealized financial income	**– 469**	**– 444**
= Net investment value	**4 941**	**4 616**
– Present value of unguaranteed residual values	– 210	– 173
= Present value of receivables from minimum leasing payments	**4 731**	**4 442**
Up to 1 year	1 578	1 524
More than 1 year to 5 years	2 847	2 638
More than 5 years	306	281

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 – 65 million on the reporting date (previous year: EUR – 91 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. 2016	31 Dec. 2015
Buildings	1	1
Land	1	1
Total leased assets under finance leases	**2**	**3**

The carrying amount of finance lease assets in property and equipment in the amount of EUR 2 million (previous year: EUR 3 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. 2016	31 Dec. 2015
Future minimum leasing payments	**4**	**5**
Up to 1 year	1	1
More than 1 year to 5 years	3	4
– Discount amount	**0**	**– 1**
= Present value of future minimum leasing payments	**3**	**4**
Up to 1 year	1	1
More than 1 year to 5 years	2	3

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. 2016	31 Dec. 2015
Buildings	64	72
Land	33	33
Total operating lease	**96**	**105**

The carrying amounts of the investment property that is rented within the scope of operating lease agreements amount to EUR 560 million (previous year: EUR 649 million).

The following payments are expected from the leases mentioned:

EUR million	31 Dec. 2016	31 Dec. 2015
Up to 1 year	49	61
More than 1 year to 5 years	143	143
More than 5 years	202	220
Future minimum leasing payments from non-terminable leasing contracts	**394**	**423**

Operating lease – LBBW as a lessee.

Leases for which LBBW is the lessee yield payment obligations of:

EUR million	31 Dec. 2016	31 Dec. 2015
Up to 1 year	56	72
More than 1 year to 5 years	114	144
More than 5 years	74	114
Future minimum leasing payments from non-terminable leasing contracts	**244**	**329**

In the 2016 financial year, minimum leasing payments of EUR – 38 million (previous year: EUR – 28 million) were recorded as expenses. These items comprise mainly expenses incurred for rent for business premises and software.

70. 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 remuneration of and transactions with key management individuals is shown in Note 78.

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. 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	– 9	0
Financial assets 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**	**64**	**6 093**
Deposits from banks	0	0	2	1	0	8 280
Deposits from customers	703	9	144	193	17	6 292
Financial liabilities 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**

31 Dec. 2015 EUR million	Shareholders	Members of the Board of Managing Directors and Supervisory Board	Non-consolidated subsidiaries	Associates	Joint ventures	Other related parties/ companies
Loans and advances to banks	188	0	0	109	0	146
Loans and advances to customers	1 440	1	86	143	57	537
Allowances for losses on loans and advances	0	0	– 37	0	– 8	0
Financial assets at fair value through profit or loss	2 357	0	48	77	0	143
Financial investments	0	0	243	47	39	5 501
Total assets	**3 986**	**1**	**341**	**375**	**88**	**6 328**
Deposits from banks	7 550	0	0	0	0	17
Deposits from customers	40	4	98	95	36	6 183
Financial liabilities at fair value through profit or loss	1 156	0	3	76	1	897
Subordinated capital	92	0	0	7	0	68
Total equity and liabilities	**8 838**	**4**	**102**	**178**	**37**	**7 164**
Contingent liabilities	**100**	**0**	**6**	**13**	**21**	**123**

The visible shift between shareholders and other related parties/companies compared with the previous year is largely due to the departure of Landeskreditbank Baden-Württemberg as a shareholder of LBBW. Accordingly, Landeskreditbank Baden-Württemberg is recognized as other related party/company as at the reporting date of 31 December 2016.

Transactions with related parties resulted in material income and expenses in »Net interest income« of EUR 129 million (previous year: EUR 119 million) and of EUR – 1 million (previous year: EUR – 6 million) in allowances for losses on loans and advances.

LBBW did not exercise the exemption in accordance with IAS 24.25.

71. Off-balance-sheet transactions.

Contingent liabilities.

EUR million	31 Dec. 2016	31 Dec. 2015
Sureties and guarantee agreements	5 971	5 410
Contingent liabilities from joint ventures	4	6
Other contingent liabilities	55	73
Total	**6 031**	**5 489**

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 (Bank) 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.
- Within the scope of necessary debt restructuring, a special-purpose vehicle ICON Brickell LLC (»ICON«) was established in the syndicate. LBBW is an indirect participant in ICON via Yankee Properties LLC (Yankee). ICON's business purpose of selling the financed apartments has meanwhile been fulfilled. LBBW and the other ICON partners have extended a guarantee (law of the federal state of Florida) for the obligations of ICON. This is based on payment obligations and on all other covenants and undertakings of Yankee towards ICON. As a result, unlimited claims could still (i.e. until the guarantee is surrendered) be referred to LBBW.
- For letters of comfort issued please see the list of shareholdings (Note 76).
- 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. 2016	31 Dec. 2015
Irrevocable loan commitments	22 784	21 796
Total	**22 784**	**21 796**

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. 2016	31 Dec. 2015
Payment obligations and joint liability	535	415
Obligations from investment projects started	60	100
Miscellaneous	28	64
Total	**623**	**579**

Payment obligations and joint liability consist of additional funding obligations to central counterparties in the amount of EUR 421 million (previous year: EUR 302 million). In addition to the items shown in the table, obligations of EUR 270 million (previous year: EUR 284 million) arise each year from rental and lease agreements.

Contingent claims.

EUR million	31 Dec. 2016	31 Dec. 2015
Legal disputes	6	10
Total	**6**	**10**

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. 2016	31 Dec. 2015
Loans and advances to banks	394	450
Loans and advances to customers	206	238
Financial investments	2	3
Other assets	34	35
Total trust assets[1)]	**636**	**727**
Deposits from banks	634	723
Deposits from customers	2	3
Total trust liabilities[1)]	**636**	**727**

1) Including receivables and liabilities on behalf of others for the account of a third party (administrative loans).

72. PIIS exposure.

In addition to the breakdown by region shown in the risk and opportunity report, the details of exposure to PIIS states (Portugal, Italy, Ireland and Spain), on the basis of the IFRS balance sheet, values per issuer's country of origin and per borrower or balance sheet category, as well the specific valuation allowances created are shown below.

Like the previous year, the item Financial assets at fair value through profit or loss only includes transactions assigned to trading assets or to assets carried at fair value and which are not derivatives. Derivatives are shown in a separate row.

LBBW Group's exposure to financial institutions, corporates and public-sector bodies from the four federal states fell year-on-year to EUR 2.6 billion (previous year: EUR 4.8 billion). The decline in particular in the financial investments of public-sector bodies in Italy (EUR – 651 million), Spain (EUR – 585 million) and Portugal (EUR – 282 million) contributed to this development. The opposing rise in the exposure to Italian financial institutions of EUR 78 million did not constitute an active build-up of risk but was essentially due to the expiry of interest rate and currency swaps that had been included in the net position of the derivatives with a negative fair value at the previous year's qualifying date.

To banks.

EUR million	Republic of Ireland		Italy		Portugal		Spain	
	31 Dec. 2016	31 Dec. 2015	31 Dec. 2016	31 Dec. 2015	31 Dec. 2016	31 Dec. 2015	31 Dec. 2016	31 Dec. 2015
Receivables	0.2	0.2	16.9	3.4	1.1	4.8	1.9	2.2
Financial assets at fair value through profit or loss (excluding derivatives)	8.5	8.7	30.5	41.2	0.0	1.0	169.5	106.9
Derivatives (net)	4.8	- 51.8	88.3	12.5	0.0	- 1.0	171.9	- 76.2
Financial investments (AfS)	0.0	0.0	37.2	38.2	0.0	0.0	48.6	70.8
Revaluation reserve	0.0	0.0	0.4	1.5	0.0	0.0	2.3	3.8
Total	**13.5**	**- 42.9**	**173.0**	**95.3**	**1.1**	**4.8**	**391.9**	**103.7**
Additional CDS information on the above item »Derivatives«								
CDS asset items	0.0	0.0	0.1	0.2	0.0	0.0	0.4	0.5
CDS liability items	0.0	0.0	0.0	- 0.2	0.0	0.0	0.0	0.0
Nominals of CDS assets	0.0	0.0	35.0	61.0	0.0	0.0	10.0	23.5
Nominals of CDS liabilities	0.0	0.0	- 13.0	- 58.0	0.0	0.0	0.0	- 20.0

To corporates.

EUR million	Republic of Ireland		Italy		Portugal		Spain	
	31 Dec. 2016	31 Dec. 2015	31 Dec. 2016	31 Dec. 2015	31 Dec. 2016	31 Dec. 2015	31 Dec. 2016	31 Dec. 2015
Receivables	191.1	330.4	43.1	162.5	14.2	18.2	120.7	559.0
Allowances for losses on loans and advances (specific loan loss provision)	0.0	0.0	- 0.3	0.0	0.0	0.0	- 27.8	- 44.7
Financial assets at fair value through profit or loss (excluding derivatives)	10.6	361.7	7.1	0.7	0.0	0.0	4.4	0.3
Derivatives (net)	0.0	0.0	10.5	9.6	0.0	0.0	63.2	59.4
Financial investments (AfS)	10.1	9.3	0.0	0.0	0.0	0.0	0.0	0.0
Revaluation reserve	2.6	2.2	0.0	0.0	0.0	0.0	0.0	0.0
Financial investments (LaR)	19.9	19.7	0.0	0.0	0.0	0.0	0.0	0.0
Total	**231.6**	**721.1**	**60.3**	**172.8**	**14.2**	**18.2**	**160.6**	**574.0**
Additional CDS information on the above item »Derivatives«								
CDS asset items	0.0	0.0	0.2	0.2	0.0	0.0	0.6	- 0.6
CDS liability items	0.0	0.0	0.0	- 0.1	0.0	0.0	0.2	0.0
Nominals of CDS assets	0.0	0.0	18.6	57.6	0.0	0.0	64.0	57.0
Nominals of CDS liabilities	0.0	0.0	0.0	- 12.6	0.0	0.0	- 5.0	- 21.0

To public sector.

EUR million	Republic of Ireland 31 Dec. 2016	Republic of Ireland 31 Dec. 2015	Italy 31 Dec. 2016	Italy 31 Dec. 2015	Portugal 31 Dec. 2016	Portugal 31 Dec. 2015	Spain 31 Dec. 2016	Spain 31 Dec. 2015
Derivatives (net)	0.4	0.0	1.5	– 0.2	0.9	– 0.3	0.9	0.0
Financial investments (AfS)	0.0	0.0	1 405.9	2 056.4	0.0	282.0	167.4	752.3
Revaluation reserve	0.0	0.0	– 182.2	– 91.5	0.0	– 1.5	– 42.2	– 41.0
Total	**0.4**	**0.0**	**1 407.4**	**2 056.2**	**0.9**	**281.7**	**168.3**	**752.3**
Additional CDS information on the above item »Derivatives«								
CDS asset items	0.4	0.1	0.1	1.0	0.0	– 0.7	0.7	0.0
CDS liability items	0.0	– 0.1	1.4	– 1.2	0.9	0.4	0.2	0.0
Nominals of CDS assets	66.4	55.0	97.8	298.2	0.0	73.1	118.8	130.0
Nominals of CDS liabilities	0.0	– 55.0	– 50.7	– 299.0	– 66.4	– 72.4	– 14.2	– 125.2

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

73. 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, which is not limited to financial instruments.

Maximum counterparty risk together with risk-reducing measures.

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 carried 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 hedging derivatives	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**

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

As at the reporting date of 31 December 2016, 99.5 % (previous year: 99.3 %) of the assets of the total portfolio of EUR 325 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 31 December 2016, this applied to gross exposure of EUR 349 million (previous year: EUR 158 million). More than half of these transactions are less than three months overdue.

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

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**

31 Dec. 2015 EUR million	<=1 month	>1 to 3 months	> 3 to 6 months	> 6 to 9 months	>9 to 12 months	> 12 months	Total
Assets carried at amortized cost							
Loans and advances to banks	0	2	0	0	0	3	5
Loans and advances to customers	21	60	9	19	3	42	153
of which finance leases	3	1	0	0	0	0	3
Total	**21**	**61**	**9**	**19**	**3**	**44**	**157**
Loan commitments and other agreements	0	0	0	0	0	1	1
Total exposure	**21**	**62**	**10**	**19**	**3**	**45**	**158**

Portfolio quality – impaired assets.

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

EUR million	31 Dec. 2016	31 Dec. 2015
Assets carried at amortized cost		
Loans and advances to banks	3	4
Loans and advances to customers	1 214	1 914
of which finance leases	73	92
Total	**1 218**	**1 919**
Loan commitments and other agreements	93	182
Total exposure	**1 310**	**2 101**

Impaired assets decreased by EUR 791 million compared with 31 December 2015. The change mainly related to loans and advances to customers.

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

	31 Dec. 2016		31 Dec. 2015	
	Total in EUR million	Total in %	Total in EUR million	Total in %
1) Termination/repayment/insolvency	195	14.9	303	14.5
2) Arrears/infringement > 90 days [1]	133	10.1	179	8.5
3) Improbable repayment [2]	982	75.0	1 619	77.0
Total	**1 310**	**100.0**	**2 101**	**100.0**

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

Forbearance.

As at 31 December 2016, LBBW Group holds assets with a net carrying amount of EUR 1.4 billion (previous year: EUR 1.5 billion) for which forbearance measures were adopted. Modifications in relation to the terms and conditions were mainly granted. A EUR 0.2 billion (previous year: EUR 0.6 billion) sub-portfolio of the assets for which forbearance measures have been adopted comprises impaired assets.

LBBW has received guarantees of EUR 0.3 billion (previous year: EUR 0.2 billion) for assets with forbearance measures.

74. Capital management.

Capital management at LBBW is designed to ensure solid capitalization within the LBBW Group. In order to guarantee adequate capital from various perspectives, the Bank analyzes capital ratios and structures both from the perspective of regulatory capital requirements and that of economic capital. Capital management at LBBW is imbedded in integrated performance and risk management, the strategies, regulations, monitoring processes and organizational structures of the LBBW Group.

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 ultimately decides on the business plan.

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 9.75 % at all times on a consolidated basis in 2016. This ratio includes the aforementioned Tier 1 capital ratio and the capital conservation buffer.

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.

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 trading book business, market price risk, the risks of the credit valuation adjustments for OTC derivatives, operational risk and counterparty risk from the trading book business. These ratios required by the supervisory authorities were maintained at all times during the 2016 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, cumulative other income and other reserves.

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 certificates 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.

Losses incurred in the current financial year, intangible assets, goodwill, deferred tax claims 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, a negative revaluation reserve, 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 seq. in conjunction with Article 481 CRR should be applied for these deductions and exclusions from common equity Tier 1 capital. Deductions of 40 % from the CET1 capital must therefore be taken into account until year-end 2016 for deferred tax from non-temporary differences, while the remaining 60 % shall be recognized as risk weighted assets with a risk weight of 0 %. The following must be taken into account as deductions of 60 % from the CET1 capital: the current loss, a negative revaluation reserve for equity investments, intangible assets and goodwill, the value adjustment deficit, a negative revaluation reserve from other securities, as well as gains/losses from derivative liabilities recognized at fair value resulting from LBBW's own credit risk. The remaining 40 % of the aforementioned deductions for the current loss, immaterial assets and goodwill is deducted from additional Tier 1 capital. The remaining value adjustment deficit of 40 % 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 2016.

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. 2016	31 Dec. 2015
Own funds	**16 814**	**16 287**
Tier 1 capital	12 822	12 931
of which: common equity Tier 1 capital (CET I)	12 033	12 181
of which additional Tier 1 capital (AT I)	789	749
Supplementary capital (Tier 2)	3 992	3 356
Total amount at risk (formerly position subject to a capital charge)	**77 406**	**74 460**
Risk weighted exposure amounts for the credit, counterparty and dilution risk, as well as advance payments	62 387	60 483
Total exposure amount for position, foreign exchange and commodity risk	8 425	7 198
Total risk exposure amount for operational risks	4 715	4 787
Total amount of risk due to CVA	1 879	1 993
Total capital ratio (in %)	**21.7**	**21.9**
Tier 1 capital ratio in %	**16.6**	**17.4**
Common equity Tier 1 ratio (in %)	**15.5**	**16.4**

EUR million	31 Dec. 2016	31 Dec. 2015
Tier 1 capital	**12 822**	**12 931**
Paid-in capital instruments	3 484	3 484
Premium	8 240	8 240
Additional Tier 1 capital (AT I)	789	749
Retained profits, cumulative result and other reserves	1 482	1 528
Deductibles from CET1 capital in accordance with CRR	– 1 173	– 1 071

Explanation of the changes in 2015 versus 2016.

Common equity Tier 1 (CET1) capital of the LBBW Group decreased primarily on account of actuarial losses and the transitional provisions according to CRR that were adjusted for 2016. Due to these transitional provisions, a higher amount must be reported at the expense of CET1. In return, for some positions lower deductions are made from additional Tier 1 (AT1) capital and from supplementary and (T2) capital. Additional Tier 1 (AT1) capital increased despite maturities of silent partners' contributions and the repayment of trust preferred securities approved by the ECB on account of the transitional provisions pursuant to the CRR. Supplementary (T2) capital was strengthened in September 2016 through the new issue of a subordinated bond as part of the MTN program totaling EUR 500 million and the placement of further subordinated bonds and subordinated debentures amounting to EUR 289 million in the fourth quarter. Another positive effect for subordinated capital results from 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 CET1 capital have an effect on all capital ratios. An increase in AT1 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.

The increase in the total amount of risk essentially results from two factors. First of all, the risk-weighted exposure amount for the credit risk increased on account of the general business performance. Secondly, a rise in the total exposure amount for position, foreign currency and commodity position risks was recorded, resulting among other things from a higher general equity risk.

75. Events after the balance sheet date.

No significant events have occurred since 1 January 2017 which LBBW expects to affect LBBW's net assets, financial position and results of operations in any material way.

Additional disclosures in accordance with Section 315a HGB.

76. 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 68.

LBBW Immobilien-Holding GmbH, Stuttgart, LBBW Leasing GmbH, Mannheim, LBBW Spezialprodukte-Holding GmbH, Stuttgart and LBBW Service GmbH, Stuttgart made use of the exemption under 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) 4a) 21) 30)]	Stuttgart	100.00		EUR	19 000.00	0.00
2	Austria Beteiligungsgesellschaft mbH [21)]	Stuttgart	66.67		EUR	35 823.47	182.13
3	Bahnhofplatz Objektverwaltungs-GmbH [1) 21)]	Stuttgart	100.00		EUR	13.53	0.07
4	Bahnhofplatz-Gesellschaft Stuttgart AG [1) 4a) 21)]	Stuttgart	98.46		EUR	4 452.44	0.00
5	Bauwerk-Stuttgart GmbH [1) 21)]	Stuttgart	75.00		EUR	– 580.89	– 13.23
6	BW-Immobilien GmbH [21)]	Stuttgart	100.00		EUR	1 920.04	0.00
7	Centro Alemán de Industria y Comercio de México S. de R. L. de C. V. [2) 21)]	México, Mexico	100.00		MXN	– 12 806.21	– 2 719.88
8	CFH Beteiligungsgesellschaft mbH [1) 21)]	Leipzig	100.00		EUR	52 320.76	279.17
9	Dritte Industriehof Objekt-GmbH [1) 4a) 21)]	Stuttgart	100.00		EUR	701.91	0.00
10	Dritte LBBW US Real Estate GmbH [21)]	Leipzig	100.00		EUR	20 868.27	3 241.35
11	Employrion Komplementär GmbH [1) 21) 33)]	Weil	100.00		EUR	30.38	1.07
12	Entwicklungsgesellschaft Grunewaldstraße 61 – 62 mbH & Co. KG [1) 21)]	Stuttgart	94.84	94.90	EUR	– 3 399.58	– 2.17
13	Entwicklungsgesellschaft Uhlandstraße 187 GmbH & Co. KG [1) 21)]	Stuttgart	94.90		EUR	– 2 202.47	– 5.38
14	Erste IMBW Capital & Consulting Komplementär GmbH [1) 21) 33)]	Weil	100.00		EUR	26.41	0.04
15	Erste Industriehof Objekt-GmbH [1) 4a) 21)]	Stuttgart	100.00		EUR	474.96	0.00
16	EuroCityCenterWest GmbH & Co. KG [1) 21)]	Stuttgart	100.00		EUR	– 19 485.97	295.34
17	EuroCityCenterWest Verwaltungs-GmbH [1) 21)]	Stuttgart	94.80		EUR	35.88	0.04
18	FLANTIR PROPERTIES LIMITED [1) 21)]	Nicosia, Cyprus	100.00		RUB	– 22 097.55	– 24 264.84
19	FOM/LEG Verwaltungs GmbH [1) 21)]	Heidelberg	50.00		EUR	– 17.07	0.21
20	Fünfte Industriehof Objekt-GmbH [1) 4a) 21)]	Stuttgart	100.00		EUR	575.02	0.00
21	Ganghofer Straße München GmbH & Co. KG [1) 21)]	Stuttgart	100.00		EUR	1.00	266.78
22	Ganghofer Straße München Komplementär GmbH [1) 21)]	Stuttgart	100.00		EUR	23.46	– 0.01
23	German Centre for Industry and Trade GmbH, Beteiligungsgesellschaft [4) 21)]	Stuttgart	100.00		EUR	63 138.03	0.00
24	German Centre for Industry and Trade Pte. Ltd. Singapore [1) 21)]	Singapore, Singapore	100.00		SGD	15 584.61	2 724.62
25	Grundstücksgesellschaft Einkaufszentrum Haerder-Center Lübeck mbH & Co. KG [1) 3a) 21)]	Stuttgart	100.00		EUR	– 24 283.86	199.04
26	Grunewaldstraße 61 – 62 GmbH [1) 21)]	Stuttgart	100.00		EUR	28.40	0.19
27	IMBW Capital & Consulting GmbH [1) 4a) 21)]	Stuttgart	100.00		EUR	250.00	0.00
28	Immobilienvermittlung BW GmbH [21)]	Stuttgart	100.00		EUR	2 656.28	156.28
29	Industriehof-Aktiengesellschaft [1) 4a) 21)]	Stuttgart	93.63		EUR	23 281.64	0.00
30	IRP Immobilien-Gesellschaft Rheinland-Pfalz mbH [1) 21)]	Mainz	100.00		EUR	400.00	45.35
31	Kiesel Finance Management GmbH [1) 21)]	Baienfurt	90.00		EUR	35.82	2.11
32	Kommunalbau Rheinland-Pfalz GmbH [1) 21)]	Mainz	100.00		EUR	1 630.74	1 095.90
33	Landesbank Baden-Württemberg Capital Markets Plc [3) 21)]	London, Great Britain	100.00		EUR	5 499.00	– 1.00
34	LBBW Asset Management Investmentgesellschaft mbH [3) 21) 30)]	Stuttgart	100.00		EUR	31 000.67	11 254.36
35	LBBW Immobilien Asset Management GmbH [1) 4a) 21)]	Stuttgart	100.00		EUR	1 305.03	0.00
36	LBBW Immobilien Capital Fischertor GmbH & Co. KG [1) 21)]	Munich	93.98	94.00	EUR	– 5 310.10	– 3.22
37	LBBW Immobilien Capital GmbH [1) 21)]	Stuttgart	100.00		EUR	– 2 198.40	– 4.14
38	LBBW Immobilien Development GmbH [1) 4a) 21)]	Stuttgart	94.90		EUR	15 783.69	0.00
39	LBBW Immobilien GmbH & Co. Beteiligung KG [1) 21)]	Stuttgart	100.00		EUR	30 760.88	486.39
40	LBBW Immobilien Kommunalentwicklung GmbH [1) 3a) 4a) 21) 30)]	Stuttgart	81.62		EUR	2 016.51	0.00
41	LBBW Immobilien Luxembourg S. A. [1) 21)]	Luxembourg, Luxembourg	100.00		EUR	– 76 209.77	– 188.52
42	LBBW Immobilien Management Gewerbe GmbH [1) 4a) 21)]	Stuttgart	94.90		EUR	3 303.97	0.00
43	LBBW Immobilien Management GmbH [1) 4a) 21)]	Stuttgart	100.00		EUR	375 694.37	0.00
44	LBBW Immobilien M_Eins Berlin GmbH [1) 21)]	Stuttgart	100.00		EUR	– 255.52	– 242.05
45	LBBW Immobilien Romania S. R. L. [1) 21)]	Bucharest, Romania	100.00		RON	– 34 510.61	– 415.79
46	LBBW Immobilien Süd GmbH & Co. KG [1) 21)]	Stuttgart	100.00		EUR	– 42 412.72	111.22
47	LBBW Immobilien Versicherungsvermittlung GmbH [1) 4a) 21)]	Stuttgart	100.00		EUR	25.00	0.00
48	LBBW Immobilien Westend Carree II GmbH & Co. KG [1) 21)]	Stuttgart	100.00		EUR	– 578.42	– 579.42
49	LBBW Immobilien Westend Carree II Komplementär GmbH [1) 21)]	Stuttgart	100.00		EUR	24.32	– 0.68
50	LBBW Immobilien-Holding GmbH [4) 21)]	Stuttgart	100.00		EUR	402 050.54	0.00

Ser. no.	Name	Place of business	Share of capital	Non-prop. voting rights	Cur-rency	Equity EUR th.	Result EUR th.
51	LBBW Leasing GmbH [4) 21)]	Stuttgart	100.00		EUR	201 088.54	0.00
52	LBBW México [2) 21)]	México, Mexico	100.00		MXN	3 465.34	965.51
53	LBBW Service GmbH [4) 21)]	Stuttgart	100.00		EUR	224.67	0.00
54	LBBW Spezialprodukte-Holding GmbH [4) 21)]	Stuttgart	100.00		EUR	101 871.73	0.00
55	LBBW US Real Estate Investment LLC [21a)]	Wilmington, USA	100.00		USD	71 015.07	– 808.38
56	LBBW Venture Capital Gesellschaft mit beschränkter Haftung [21)]	Stuttgart	100.00		EUR	18 849.07	295.12
57	LEG Projektgesellschaft 2 GmbH & Co. KG [1) 21)]	Stuttgart	100.00		EUR	5 340.24	– 120.74
58	LEG Verwaltungsgesellschaft 2 mbH [1) 21)]	Stuttgart	100.00		EUR	28.24	0.36
59	LOOP GmbH [1) 21)]	Stuttgart	100.00		EUR	– 35.68	0.95
60	LRP Capital GmbH [1) 21)]	Stuttgart	100.00		EUR	3 418.94	14.56
61	Mannheim O 4 Projektgesellschaft mbH & Co. KG [1) 3a) 21)]	Stuttgart	100.00		EUR	1.00	5 852.75
62	MANUKA Grundstücks-Verwaltungsgesellschaft mbH [1) 21)]	Stuttgart	100.00		EUR	56.75	0.09
63	MKB Mittelrheinische Bank Gesellschaft mit beschränkter Haftung [21) 30)]	Koblenz	100.00		EUR	49 927.75	9 148.13
64	MKB Versicherungsdienst GmbH [1) 4a) 21)]	Koblenz	100.00		EUR	27.04	0.00
65	MMV Leasing Gesellschaft mit beschränkter Haftung [1) 4a) 21) 30)]	Koblenz	100.00		EUR	21 000.00	0.00
66	MMV-Mobilien Verwaltungs- und Vermietungsgesellschaft mbH [1) 4a) 21) 30)]	Koblenz	100.00		EUR	26.00	0.00
67	Nagatino Property S. à. r. l. [1) 21)]	Luxembourg, Luxembourg	100.00		EUR	– 27 670.65	– 14.19
68	Nymphenburger Straße München GmbH & Co. KG [1) 21)]	Stuttgart	100.00		EUR	– 136.12	– 109.15
69	Nymphenburger Straße München Komplementär GmbH [1) 21)]	Stuttgart	100.00		EUR	23.46	– 0.01
70	Projekt 20 Verwaltungs GmbH [1) 21)]	Munich	100.00		EUR	37.65	1.97
71	Radon Verwaltungs-GmbH [21)]	Stuttgart	100.00		EUR	22 493.14	2 093.02
72	Rebstockpark 7.1 Entwicklungsgesellschaft mbH & Co. KG [1) 3a) 21)]	Stuttgart	100.00		EUR	– 1 574.17	– 416.12
73	Rheinallee V GmbH & Co. KG [1)]	Stuttgart	100.00			n/a	n/a
74	Rheinallee V Komplementär GmbH [1)]	Stuttgart	100.00			n/a	n/a
75	Rheinpromenade Mainz GmbH & Co. KG [1) 21)]	Stuttgart	100.00		EUR	– 220.07	– 191.28
76	Schlossgartenbau Objekt-GmbH [1) 4a) 21)]	Stuttgart	100.00		EUR	18 560.61	0.00
77	Schlossgartenbau-Aktiengesellschaft [1) 4a) 21)]	Stuttgart	92.68		EUR	6 592.42	0.00
78	Schockenried GmbH & Co. KG [1) 21)]	Stuttgart	100.00		EUR	– 4 510.20	424.96
79	Schockenriedverwaltungs GmbH [1) 21)]	Stuttgart	100.00		EUR	27.17	0.40
80	SG Management GmbH [1) 21)]	Stuttgart	100.00		EUR	9 936.75	313.88
81	SGB – Hotel GmbH & Co. KG [1) 21)]	Stuttgart	100.00		EUR	– 1 593.94	– 80.76
82	SLN Maschinen-Leasing Verwaltungs-GmbH [1) 21)]	Stuttgart	100.00		EUR	1 472.44	150.59
83	SLP Mobilien-Leasing Verwaltungs GmbH [1) 21)]	Mannheim	100.00		EUR	5 782.95	183.73
84	Süd Beteiligungen GmbH [21)]	Stuttgart	100.00		EUR	199 902.97	3 557.27
85	Süd KB Unternehmensbeteiligungsgesellschaft mbH [1) 21)]	Stuttgart	100.00		EUR	52 168.60	2 805.78
86	SüdFactoring GmbH [3) 4) 21) 30)]	Stuttgart	100.00		EUR	70 000.00	0.00
87	Süd-Kapitalbeteiligungs-Gesellschaft mbH [1) 4a) 21)]	Stuttgart	100.00		EUR	79 981.87	0.00
88	SüdLeasing Agrar GmbH [1) 21) 30)]	Mannheim	100.00		EUR	1 058.83	446.14
89	SüdLeasing GmbH [4) 21) 30)]	Stuttgart	100.00		EUR	35 896.15	0.00
90	Turtle Portfolio GmbH & Co. KG [1) 21) 33)]	Frankfurt am Main	100.00		EUR	– 44 786.01	1 068.77
91	Turtle 1. Verwaltungs-GmbH [1) 21) 33)]	Frankfurt am Main	100.00		EUR	68.60	30.64
92	Uhlandstraße 187 GmbH [1) 21)]	Stuttgart	100.00		EUR	28.63	0.65
93	Vermietungs- und Verwaltungsgesellschaft Sendlinger Straße GmbH & CO. KG [1) 3a) 21)]	Stuttgart	100.00		EUR	– 64.09	0.00
94	Vermietungs- und Verwaltungsgesellschaft Sendlinger Straße mbH [1) 3a) 21)]	Stuttgart	100.00		EUR	17.94	– 0.87
95	Vierte Industriehof Objekt-GmbH [1) 4a) 21)]	Stuttgart	100.00		EUR	1 176.78	0.00
96	VVS III GmbH & Co. KG [1) 21)]	Stuttgart	100.00		EUR	– 218.62	– 186.64
97	VVS III Verwaltungs-GmbH [1) 21)]	Stuttgart	100.00		EUR	– 22.97	– 35.98
98	Zweite IMBW Capital & Consulting Komplementär GmbH [1) 21)]	Stuttgart	100.00		EUR	21.80	– 0.89
99	Zweite Industriehof Objekt-GmbH [1) 4a) 21)]	Stuttgart	100.00		EUR	19 825.72	0.00
100	Zweite LBBW US Real Estate GmbH [21)]	Leipzig	100.00		EUR	45 965.79	– 1 989.95

Ser. no.	Name	Place of business	Share of capital	Non-prop. voting rights	Cur-rency	Equity EUR th.	Result EUR th.
b. Fully consolidated subsidiaries (authority over contractual agreements)							
101	aiP Gärtnerplatz GmbH & Co. KG [1) 21)]	Oberhaching	45.00	66.67	EUR	10.00	1 078.65
102	Employrion Immobilien GmbH & Co. KG [1) 21)]	Weil	35.00	50.00	EUR	54.85	0.00
103	Erste IMBW Capital & Consulting Objektgesellschaft mbH & Co. KG [1) 21)]	Weil	40.00	50.00	EUR	– 34.01	– 422.94
104	FOM/LEG Generalübernehmer GmbH & Co. KG [1) 21)]	Heidelberg	50.00		EUR	– 8 904.98	– 25.95
105	Grundstücksgesellschaft Einkaufszentrum Kröpeliner-Tor-Center Rostock mbH & Co. KG [1) 21)]	Berlin	39.94	50.00	EUR	– 9 036.14	– 114.63
106	Humboldt Multi Invest B SICAV-FIS Sachsen LB Depot A [12)]	Luxembourg, Luxembourg	100.00		EUR	5 897.89	– 248.71
107	LBBW Unternehmensanleihen Euro Offensiv [23) 33)]	Stuttgart			EUR	20 392.83	– 821.87
108	Turtle Vermögensverwaltungs-GmbH & Co. KG [1) 21)]	Frankfurt am Main	49.00	50.00	EUR	– 40 637.32	925.85
109	Weinberg Capital Designated Activity Company [11) 33)]	Dublin 2, Ireland			EUR	32.29	– 92.00
110	Weinberg Funding Ltd. [15) 33)]	St. Helier, UK			EUR	3.71	– 0.28

Ser. no.	Name	Place of business	Share of capital	Non-prop. voting rights	Cur-rency	Equity EUR th.	Result EUR th.
2. Joint ventures accounted for using the equity method							
111	Alida Grundstücksverwaltungsgesellschaft mbH & Co. Vermietungs-KG [1) 21) 31)]	Pullach	99.04	50.00	EUR	5 254.76	2 357.47
112	ARGE ParkQuartier Berg [1) 21)]	Stuttgart	50.00		EUR	229.34	163.38
113	Bad Kreuznacher Entwicklungsgesellschaft mbH (BKEG) [1) 21)]	Bad Kreuznach	50.00		EUR	1 801.86	1 257.66
114	GIZS GmbH & Co. KG [21) 29)]	Frankfurt am Main	33.33		EUR	18 316.02	– 6 683.98
115	OVG MK6 GmbH [1) 3a) 21)]	Berlin	50.00		EUR	– 1 552.89	– 1 460.27
116	Parcul Banatului SRL [1) 21)]	Bucharest, Romania	50.00		EUR	– 26 100.93	– 3 166.23
117	SGB – Hotel – Verwaltung GmbH [1) 21)]	Stuttgart	50.00		EUR	27.20	4.42

Ser. no.	Name	Place of business	Share of capital	Non-prop. voting rights	Cur-rency	Equity EUR th.	Result EUR th.
3. Associates accounted for using the equity method							
118	Altstadt-Palais Immobilien GmbH & Co. KG [1) 21)]	Weil	40.00	50.00	EUR	– 149.25	– 185.97
119	BWK GmbH Unternehmensbeteiligungsgesellschaft [1) 21)]	Stuttgart	40.00		EUR	298 085.69	52 290.19
120	BWK Holding GmbH Unternehmensbeteiligungsgesellschaft [1) 21)]	Stuttgart	40.00		EUR	8 122.85	322.85
121	EGH Entwicklungsgesellschaft Heidelberg GmbH & Co. KG [1) 21)]	Heidelberg	33.33		EUR	4 611.88	3 017.17
122	Vorarlberger Landes- und Hypothekenbank AG [1) 21) 30)]	Bregenz, Austria	23.97		EUR	889 921.38	78 368.58

Ser. no.	Name	Place of business	Share of capital	Non-prop. voting rights	Currency	Equity EUR th.	Result EUR th.
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)							
123	aiP Gärtnerplatz Verwaltungs GmbH [1) 21)]	Oberhaching	100.00		EUR	22.50	1.54
124	Baden-Württembergische Equity Gesellschaft mit beschränkter Haftung [21)]	Stuttgart	100.00		EUR	437.69	– 430.20
125	BW Bank Capital Funding LLC I [1) 3) 16) 28)]	Wilmington, USA	100.00		EUR	0.00	0.00
126	BW Bank Capital Funding Trust I [1)]	Wilmington, USA	0.00	100.00		n/a	n/a
127	BW Capital Markets Inc. [3) 21)]	Dover, USA	100.00		USD	3 100.37	– 102.20
128	BW Leasing GmbH & Co. KG i.L. [1) 21)]	Mannheim	100.00		EUR	98.61	0.00
129	CARGO SL Mobilien-Leasing GmbH & Co. KG [1) 21) 33)]	Mannheim	0.00	75.00	EUR	475.56	– 60.03
130	DBW Advanced Fiber Technologies GmbH [1) 21)]	Bovenden	100.00		EUR	38 804.79	6 340.00
131	DBW Automotive Components Shanghai Co., Ltd. [1) 21)]	Shanghai, China	80.00		CNY	2 554.15	835.43
132	DBW Fiber Corporation [1) 21)]	Summerville, USA	100.00		USD	2 243.35	383.62
133	DBW Fiber Technologies S. de R.L.de C.V. [1) 21)]	Puebla, Mexico	100.00		MXN	0.44	– 0.02
134	DBW Holding GmbH [1) 21)]	Bovenden	100.00		EUR	21 986.78	– 49.40
135	DBW Hungary KFT [1) 21)]	Tapolca, Hungary	100.00		EUR	2 861.55	1 459.09
136	DBW Ibérica Industria Automoción, S.A. [1) 21)]	Vall d‘Uxo Castellón, Spain	100.00		EUR	1 017.15	332.59
137	DBW Metallverarbeitung GmbH [1) 4a) 21)]	Ueckermünde	100.00		EUR	1 233.88	0.00
138	DBW Polska Sp.z. o.o. [1) 21)]	Cigacice, Poland	100.00		PLN	3 161.26	1 374.57
139	DBW-Fiber-Neuhaus GmbH [1) 4a) 21)]	Neuhaus am Rennweg	100.00		EUR	3 000.00	0.00
140	Finclusive Alfmeier Leasing Services GmbH & Co. KG i. L. [1) 21)]	Mannheim	100.00		EUR	66.08	0.00
141	German Centre for Industry and Trade Beijing Co., Ltd. [21)]	Beijing, China	100.00		CNY	3 922.52	415.50
142	Gmeinder Lokomotivenfabrik GmbH i. L. [1) 9)]	Mosbach	90.00		EUR	306.00	– 641.00
143	Haerder-Center Lübeck Verwaltungsgesellschaft mbH [1) 21)]	Stuttgart	100.00		EUR	32.74	1.52
144	Heurika Mobilien-Leasing GmbH [1) 3a) 21)]	Mannheim	100.00		EUR	1 057.09	2 756.83
145	Ina Grundstücksverwaltungsgesellschaft mbH i. L. [1) 21)]	Mannheim	100.00		EUR	6.54	0.00
146	Iris Grundstücksverwaltungsgesellschaft mbH i. L. [1) 21)]	Mannheim	100.00		EUR	6.59	0.00
147	Karin Mobilien-Leasing GmbH i. L. [1) 21)]	Mannheim	100.00		EUR	884.31	0.00
148	KB Projekt GmbH [1) 21)]	Mainz	100.00		EUR	54.53	57.07
149	Kröpeliner-Tor-Center Rostock Verwaltungsgesellschaft mbH [1) 21) 33)]	Berlin	100.00		EUR	23.42	1.80
150	KURIMA Grundstücksgesellschaft mbH & Co. KG [1) 21)]	Stuttgart	1.00	84.00	EUR	– 11.32	– 4.33
151	LA electronic Holding GmbH i. L. [1) 21)]	Espelkamp	100.00		EUR	– 17 074.86	– 1 717.92
152	Laurus Grundstücksverwaltungsgesellschaft mbH [21)]	Stuttgart	100.00		EUR	1 036.44	– 16.82
153	LBBW Dublin Management GmbH [4) 21)]	Stuttgart	100.00		EUR	20 845.91	0.00
154	LBBW Gastro Event GmbH [4) 21)]	Stuttgart	100.00		EUR	130.00	0.00
155	LBBW Pensionsmanagement GmbH [4) 21)]	Stuttgart	100.00		EUR	25.00	0.00
156	LBBW REPRESENTAÇÃO LTDA. [2) 21)]	Itaim-Bibi/Sao Paulo, Brazil	100.00		BRL	174.98	12.40
157	LBBW (Schweiz) AG [21)]	Zurich, Switzerland	100.00		CHF	9 866.55	– 1 711.70
158	LBBW Verwaltungsgesellschaft Leipzig mbH & Co. Parking KG [21)]	Leipzig	100.00		EUR	– 738.37	125.72
159	LEG Osiris 4 GmbH [1) 21)]	Stuttgart	100.00		EUR	31.91	– 0.89
160	LEG Verwaltungsgesellschaft 4 mbH [1) 21)]	Stuttgart	100.00		EUR	28.88	0.00
161	LGZ-Anlagen-Gesellschaft mit beschränkter Haftung [4) 21)]	Mannheim	100.00		EUR	110.00	0.00
162	LIVIDA MOLARIS Grundstücks-Vermietungsgesellschaft mbH & Co. Landesfunkhaus Erfurt KG [21)]	Erfurt	99.77	24.00	EUR	– 10 444.57	1 482.47
163	LIVIDA MOLARIS Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Polizei Nordhausen KG [21)]	Erfurt	100.00	15.00	EUR	– 5 824.57	146.48
164	LLC German Centre for Industry and Trade [21)]	Moscow, Russia	100.00		RUB	2 345.15	296.46
165	LUTEA MOLARIS Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Flöha KG [21)]	Berlin	100.00	15.00	EUR	– 4 088.43	482.68
166	Mannheim O4 Verwaltungsgesellschaft mbH [1) 21)]	Stuttgart	100.00		EUR	28.51	0.51
167	MDL Mitteldeutsche Leasing GmbH i. L. [1) 11)]	Leipzig	100.00		EUR	– 21 344.04	– 268.81
168	MLP Leasing GmbH & Co. KG i. L. [1) 21)]	Mannheim	100.00		EUR	– 14.84	0.00
169	MLP Verwaltungs GmbH [1) 21)]	Mannheim	100.00		EUR	108.54	48.94
170	MLS GmbH & Co. KG [1) 21)]	Mannheim	100.00		EUR	41.72	41.90

Ser. no.	Name	Place of business	Share of capital	Non-prop. voting rights	Cur-rency	Equity EUR th.	Result EUR th.
171	MMV-Mittelrheinische Leasing Gesellschaft mit beschränkter Haftung [1) 4a) 21)]	Koblenz	100.00		EUR	26.43	0.00
172	Pollux Vierte Beteiligungsgesellschaft mbH [21)]	Stuttgart	100.00		EUR	4 532.60	18.87
173	Rebstockpark 7.1 Komplementär GmbH [1) 21)]	Stuttgart	100.00		EUR	24.16	0.08
174	Rheinpromenade Mainz Komplementär GmbH [1) 21)]	Stuttgart	100.00		EUR	24.18	– 0.28
175	Rhin-Neckar S. A. [21)]	Grevenmacher, Luxembourg	100.00		EUR	65.16	– 52.08
176	Sachsen V.C. GmbH & Co. KG [1) 21)]	Leipzig	75.19		EUR	1 628.47	337.04
177	Sachsen V.C. Verwaltungsgesellschaft mbH [1) 21)]	Leipzig	100.00		EUR	9.38	– 2.68
178	SachsenFonds International Equity Holding I GmbH [1) 21)]	Aschheim-Dornach	100.00		EUR	2 329.10	– 326.39
179	SachsenFonds International Equity I GmbH & Co. KG [1) 21)]	Leipzig	96.15		EUR	3 328.85	– 896.97
180	SBF Sächsische Beteiligungsfonds GmbH [1) 21)]	Leipzig	100.00		EUR	59.01	5.39
181	SDD Holding GmbH i. L. [1) 21)]	Stuttgart	100.00		EUR	– 3 339.94	– 57.79
182	SDT- Stanz und Dämmtechnik GmbH [1) 4a) 21)]	Berga	100.00		EUR	138.40	0.00
183	SKH Beteiligungs Holding GmbH [21)]	Stuttgart	100.00		EUR	2 762.35	– 49.65
184	SL Bayern Verwaltungs GmbH [1) 21)]	Mannheim	100.00		EUR	1 012.22	– 15.06
185	SL Bremen Verwaltungs GmbH [1) 21)]	Mannheim	100.00		EUR	1 412.98	336.04
186	SL BW Verwaltungs GmbH [1) 21)]	Mannheim	100.00		EUR	603.89	– 5.28
187	SL Düsseldorf Verwaltungs GmbH [1) 21)]	Mannheim	100.00		EUR	594.44	9.67
188	SL FINANCIAL MEXICO, S.A. DE C.V., SOFOM, E. N. R. [1) 21)]	Col. Lomas de Santa Fe, Mexico	100.00		MXN	423.82	175.96
189	SL Financial Services Corporation [1) 21)]	Norwalk, USA	100.00		USD	3 379.37	334.62
190	SL Mobilien-Leasing GmbH & Co. Hafis KG [1) 21) 33)]	Mannheim	0.00	51.00	EUR	2 011.30	– 6.45
191	SL Nordlease GmbH & Co KG [1) 21) 33)]	Mannheim	0.00	60.00	EUR	– 2 091.95	– 1.35
192	SL Operating Services GmbH i. L. [1) 21)]	Mannheim	100.00		EUR	80.41	0.00
193	SL RheinMainSaar Verwaltungs GmbH [1) 21)]	Mannheim	100.00		EUR	511.07	– 1.12
194	SL Schleswig-Holstein Verwaltungs GmbH [1) 21)]	Mannheim	100.00		EUR	92.10	– 30.51
195	SL Ventus GmbH & Co. KG [1) 21)]	Mannheim	100.00		EUR	521.21	51.14
196	SLKS GmbH & Co. KG i. L. [1) 21)]	Stuttgart	100.00		EUR	853.66	– 130.11
197	Städtische Pfandleihanstalt Stuttgart Aktiengesellschaft [21)]	Stuttgart	100.00		EUR	3 851.68	272.89
198	Steelcase Leasing GmbH & Co KG [1) 21)]	Mannheim	100.00		EUR	148.57	– 1.79
199	Süd Mobilien-Leasing GmbH [1) 4a) 21) 30)]	Stuttgart	100.00		EUR	28.28	0.00
200	SüdLeasing Finance-Holding GmbH [1) 21)]	Stuttgart	100.00		EUR	178.92	– 5.19
201	SüdLeasing Suisse AG [1) 21)]	Unterengstringen, Switzerland	100.00		CHF	8 303.49	– 404.93
202	SÜDRENTING ESPANA, S. A. [1) 21)]	Barcelona, Spain	100.00		EUR	12 063.56	380.65
203	targens GmbH [21)]	Stuttgart	100.00		EUR	4 183.41	724.54
204	Technologiegründerfonds Sachsen Verwaltung GmbH [1) 21)]	Leipzig	100.00		EUR	28.35	1.02
205	Viola Grundstücksverwaltungs-GmbH & Co. Verpachtungs KG [21)]	Pullach	99.41	50.00	EUR	1 961.67	588.61
206	Wachstumsfonds Mittelstand Sachsen Verwaltung GmbH [1) 21)]	Leipzig	100.00		EUR	37.51	4.06
207	Yankee Properties II LLC [33)]	Wilmington, USA	0.00	100.00		n/a	n/a
208	Yankee Properties LLC [21)]	New York, USA	100.00		USD	616.34	– 25.02
209	Zenon Mobilien-Leasing GmbH [1) 21)]	Mannheim	100.00		EUR	482.58	13.98
210	Zorilla Mobilien-Leasing GmbH [1) 21)]	Mannheim	100.00		EUR	36.02	– 10.30
211	Zweite Karl-Scharnagl-Ring Immobilien Verwaltung GmbH [1) 21)]	Munich	100.00		EUR	37.87	1.52

Ser. no.	Name	Place of business	Share of capital	Non-prop. voting rights	Cur-rency	Equity EUR th.	Result EUR th.
b. Subsidiaries not included (authority over contractual agreements)							
212	ColEssen S. a. r. l. [11) 33)]	Luxembourg, Luxembourg			EUR	– 7 210.00	3 060.00
213	Georges Quay Funding I Limited [25) 33)]	Dublin 1, Ireland			EUR	9.63	0.00
214	LBBW RS Flex [33)]	Stuttgart				n/a	n/a
215	Medico Fonds Nr. 41 Objekt Gera KG [11) 33)]	Düsseldorf			EUR	– 15 524.91	– 801.33
216	Medico Fonds Nr. 45 Objekt Dortmund KG [15) 33)]	Düsseldorf			EUR	– 3 777.76	– 527.85
217	M-Korb Funding No.1 Ltd. [11) 33)]	Dublin 2, Ireland			EUR	– 7 911.22	859.39
218	Platino S. A. [21) 33)]	Luxembourg, Luxembourg			EUR	60.00	77.24
219	Spencerview Asset Management Ltd. [25) 33)]	Dublin 2, Ireland			EUR	1.95	0.00
220	Weinberg Capital LLC [33)]	Wilmington, USA				n/a	n/a

Ser. no.	Name	Place of business	Share of capital	Non-prop. voting rights	Currency	Equity EUR th.	Result EUR th.
2. Joint ventures not accounted for using the equity method							
221	Aaron Grundstücksverwaltungsgesellschaft mbH i. L.[1][13]	Oberursel	50.00		EUR	– 2 254.37	1.77
222	addfinity testa GmbH[1][21]	Hartha	19.08		EUR	3 047.30	487.19
223	EPSa Holding GmbH[1][21]	Saalfeld	45.00		EUR	1 791.97	– 99.10
224	German Centre for Industry and Trade India Holding-GmbH[1][21]	Munich	50.00		EUR	987.24	– 290.08
225	GIZS Verwaltungs-GmbH[21]	Frankfurt am Main	33.33		EUR	19.70	– 10.30
226	LBBW Immobilien Verwaltung GmbH[1][21]	Stuttgart	50.00		EUR	53.50	4.39
227	SHS Gesellschaft für Beteiligungen mbH & Co. Mittelstand KG[1][21]	Tübingen	75.02		EUR	4 010.72	– 0.41

Ser. no.	Name	Place of business	Share of capital	Non-prop. voting rights	Currency	Equity EUR th.	Result EUR th.
3. Associates not accounted for using the equity method							
228	aiP Hirschgarten 1 Verwaltungs GmbH i. L.[1][21]	Oberhaching	45.00		EUR	39.78	9.14
229	aiP Isarauen Verwaltungs GmbH[1][21]	Oberhaching	45.00		EUR	22.31	– 1.38
230	Cäcilienpark am Neckar GbR[1][21]	Heilbronn	33.33		EUR	308.97	8.97
231	Cortex Biophysik GmbH[1][17]	Leipzig	47.70		EUR	– 295.70	235.28
232	Doughty Hanson & Co. Funds III Partnership No.15[1][21]	London, Great Britain	21.74		USD	15 100.87	– 8.13
233	DUO PLAST Holding GmbH[1][21]	Lauterbach	48.00		EUR	14 473.81	1 613.99
234	Grundstücks-, Vermögens- und Verwaltungs-GbR 34, Wolfstor 2, Esslingen[1][21]	Stuttgart	29.50		EUR	9 348.49	405.61
235	Grundstücks-, Vermögens- und Verwaltungs-GbR 36, Stuttgart/Leinfelden-Echterdingen[1][21]	Stuttgart	27.44		EUR	30 769.81	– 51.71
236	Grundstücks-, Vermögens- und Verwaltungs-GbR 38, Stuttgart-Filderstadt[1][21]	Stuttgart	23.36		EUR	26 150.15	– 425.03
237	Grundstücks-, Vermögens- und Verwaltungs-GbR 39, Stuttgart-Fellbach[1][21]	Stuttgart	41.54		EUR	25 472.67	– 604.44
238	Grundstücks-, Vermögens- und Verwaltungs-GbR 40, Ludwigsburg »Am Schloßpark«[1][21]	Stuttgart	44.22		EUR	24 564.47	160.25
239	HAP Holding GmbH[1][21]	Dresden	50.00		EUR	4 388.01	1 570.36
240	Helmut Hoffmann Grundstücks-Gesellschaft mbH[1][21]	Varel	37.50		EUR	1 840.01	26.78
241	INULA Grundstücks-Verwaltungsgesellschaft mbH & Co. KG[21]	Grünwald	80.00	18.25	EUR	– 23 565.99	3 959.47
242	Kiesel Finance GmbH & Co. KG[1][21][33]	Baienfurt	0.00	75.00	EUR	2 424.73	1 552.85
243	Kreditgarantiegemeinschaft in Baden-Württemberg Verwaltungs-GmbH[21]	Stuttgart	20.00		EUR	1 022.58	0.00
244	M Cap Finance Deutsche Mezzanine Fonds Zweite GmbH & Co. KG[1][21]	Leipzig	49.75		EUR	21 157.27	99.26
245	Mittelständische Beteiligungsgesellschaft Sachsen mbH[21]	Dresden	25.27		EUR	42 264.51	2 949.14
246	MOLWANKUM Vermietungsgesellschaft mbH & Co. Objekt Landkreis Hildburghausen KG[21]	Düsseldorf	94.00	49.00	EUR	– 1 381.18	443.93
247	Piller Entgrattechnik GmbH[1][21]	Ditzingen	40.00		EUR	8 750.93	1 478.12
248	RESprotect GmbH[1][21]	Dresden	32.80		EUR	– 1 531.37	– 64.93
249	Ritterwand Metall-Systembau Beteiligungs GmbH[1][21]	Nufringen	49.97		EUR	9 520.85	853.33
250	SachsenFonds Immobilien GmbH[1][21]	Aschheim-Dornach	49.00		EUR	51.86	– 2.14
251	Siedlungswerk GmbH Wohnungs- und Städtebau[21][30]	Stuttgart	25.00		EUR	217 669.80	9 782.29
252	SL Mobilien-Leasing GmbH & Co. ENERCON KG[1][21][33]	Mannheim	0.00	80.00	EUR	35 878.29	613.56
253	SLB Leasing-Fonds GmbH & Co. Portos KG i. L.[1][21]	Pöcking	35.12		EUR	284.36	– 30.28
254	SLN Maschinen Leasing GmbH & Co. OHG[1][21][33]	Stuttgart	0.00	75.00	EUR	– 898.92	– 183.21
255	SLP Mobilien-Leasing GmbH & Co. OHG[1][21][33]	Mannheim	0.00	75.00	EUR	414.66	60.56
256	Stollmann Entwicklungs- und Vertriebs GmbH i. L.[1][21]	Schenefeld	34.00		EUR	1 368.58	228.23
257	TC Objekt Bonn Beteiligungs-GmbH[1][21]	Soest	25.00		EUR	22.00	n/a
258	TC Objekt Darmstadt Beteiligungs-GmbH[1][21]	Soest	25.00		EUR	22.33	n/a
259	TC Objekt Münster Nord Beteiligungs-GmbH[1][21]	Soest	25.00		EUR	21.76	n/a
260	TC Objekt Münster Süd Beteiligungs-GmbH[1][21]	Soest	25.00		EUR	22.03	n/a
261	Technologiegründerfonds Sachsen Basic GmbH & Co. KG[24]	Dresden			EUR	1 000.00	– 0.56
262	Technologiegründerfonds Sachsen Holding GmbH & Co. KG[1][21][31][33]	Leipzig	0.00	100.00	EUR	0.00	0.00
263	Technologiegründerfonds Sachsen Initiatoren GmbH & Co. KG[1][21]	Leipzig	25.00		EUR	1.48	– 0.35
264	Technologiegründerfonds Sachsen Management GmbH & Co. KG[1][21]	Leipzig	25.00		EUR	4.00	962.30
265	Technologiegründerfonds Sachsen Plus GmbH & Co. KG[1][22]	Leipzig	8.48		EUR	569.55	n/a
266	Technologiegründerfonds Sachsen Seed GmbH & Co. KG[1][21]	Leipzig	3.34		EUR	4 290.97	– 349.28
267	Technologiegründerfonds Sachsen Start up GmbH & Co. KG[1][21]	Leipzig	10.83		EUR	16 251.55	– 984.93
268	Wachstumsfonds Mittelstand Sachsen GmbH & Co. KG[1][21]	Leipzig	27.55		EUR	25 086.55	2 376.84
269	Wachstumsfonds Mittelstand Sachsen Initiatoren GmbH & Co. KG[1][21]	Leipzig	25.00		EUR	0.36	– 0.26
270	Wachstumsfonds Mittelstand Sachsen Management GmbH & Co. KG[1][21]	Leipzig	25.00		EUR	4.00	1 260.40
271	Wachstumsfonds Mittelstand Sachsen Plus GmbH & Co. KG[1][21]	Leipzig	12.72	13.72	EUR	5 630.26	– 215.33
272	1. yourTime Solutions AbwicklungsGmbH[1][11]	Potsdam	20.11		EUR	0.00	– 1 317.00

Ser. no.	Name	Place of business	Share of capital	Non-prop. voting rights	Cur-rency	Equity EUR th.	Result EUR th.
III. Equity investments within the meaning of Section 271 (1) HGB [27)]							
273	ABE Clearing S.A.S., à capital variable [21)]	Paris, France	1.89		EUR	15 604.00	4 791.00
274	Abingworth Bioventures III L. P. [1) 21)]	London, Great Britain	0.44		USD	20 317.06	– 2 061.22
275	Accession Mezzanine Capital II L. P. [1) 21)]	Hamilton, Bermuda	1.91		EUR	51 826.00	– 5 979.00
276	ADLATUS Robotics GmbH [1)]	Ulm	0.75			n/a	n/a
277	African Export-Import Bank [21)]	Cairo, Egypt	0.07		USD	1 200 899.70	118 806.41
278	AKA Ausfuhrkredit-Gesellschaft mit beschränkter Haftung [21)]	Frankfurt am Main	3.29		EUR	212 967.10	16 035.00
279	ALPHA CEE II L. P. [1) 21)]	Grand Cayman, Cayman Islands	2.41		EUR	189 784.00	17 807.00
280	amcure GmbH [1) 21)]	Eggenstein-Leopoldshafen	18.26		EUR	1 195.00	– 1 037.00
281	Bain Capital VIII L. P. [1) 21)]	Grand Cayman, Cayman Islands	0.32		USD	847 723.44	470 318.82
282	Biametrics GmbH [1) 21)]	Tübingen	13.31		EUR	931.48	– 851.76
283	BioM Venture Capital GmbH & Co. Fonds KG [1) 21)]	Martinsried	4.46		EUR	450.03	– 2.57
284	Bubbles and Beyond GmbH [1) 21)]	Leipzig	7.90		EUR	1 963.41	– 129.77
285	Bürgschaftsbank Sachsen GmbH [21) 30)]	Dresden	27.96	18.44	EUR	38 150.45	2 300.13
286	Candover 2001 GmbH & Co. KG i. L. [1) 18)]	Frankfurt am Main	25.64		EUR	31.96	610.77
287	Capital Point Ltd. [1) 21)]	Or-Yehuda, Israel	0.37		ILS	42 317.97	5 620.81
288	CCP Systems AG i. L. [1) 15)]	Stuttgart	0.96		EUR	9 182.77	– 10 654.37
289	CFB NEPTUNO Schiffsbetriebsgesellschaft mbH & Co. MS »MARILYN STAR« KG [1) 15)]	Hamburg	0.22		EUR	35 183.35	3 539.31
290	Chargepartner GmbH i. L. [1)]	Walldorf	0.75			n/a	n/a
291	Chicago Mercantile Exchange Holdings Inc.	Wilmington, USA	0.10			n/a	n/a
292	Compositence GmbH [1) 21)]	Stuttgart	0.61		EUR	127.18	– 1 004.91
293	Computomics GmbH [1) 21)]	Tübingen	0.75		EUR	104.96	– 105.94
294	ConCardis Gesellschaft mit beschränkter Haftung [21)]	Frankfurt am Main	4.23		EUR	74 914.47	24 201.80
295	Conceptboard GmbH [1) 21)]	Stuttgart	1.10		EUR	0.00	– 282.92
296	CorTec GmbH [1) 21)]	Freiburg	0.59		EUR	627.77	893.05
297	crealytics GmbH [1) 21)]	Passau	11.66		EUR	3 484.42	– 565.75
298	CVC European Equity Partners IV (A). L. P. [1) 21)]	Grand Cayman, Cayman Islands	0.29		EUR	315 488.65	38 048.28
299	Depository Trust & Clearing Corporation	New York, USA	0.01			n/a	n/a
300	Designwelt GmbH i. L. [1) 10)]	Munich	6.41		EUR	– 17.00	– 4 417.00
301	Deutscher Sparkassen Verlag Gesellschaft mit beschränkter Haftung [21) 30)]	Stuttgart	8.11		EUR	140 953.37	13 719.32
302	Doughty Hanson & Co. IV Partnership 2 [1) 21)]	London, Great Britain	4.04		EUR	100 977.00	– 44 161.11
303	Dr. Gubelt Immobilien Vermietungs-Gesellschaft mbH & Co. Objekt Stuttgart Gutenbergstraße KG [21)]	Düsseldorf	2.62	2.55	EUR	– 43.84	387.47
304	Dritte SHS Technologiefonds GmbH & Co. KG [1) 15)]	Tübingen	4.94		EUR	22 594.18	– 160.47
305	enOware GmbH [1) 21)]	Karlsruhe	0.75		EUR	0.00	– 128.52
306	Erste IFD geschlossener Immobilienfonds für Deutschland GmbH & Co. KG [1) 15)]	Hamburg	0.20		EUR	25 386.78	4 990.02
307	FL FINANZ-LEASING GmbH [21)]	Wiesbaden	17.00		EUR	– 272.23	– 139.88
308	Fludicon GmbH i. L. [1) 15)]	Darmstadt	7.88		EUR	516.90	– 2 184.41
309	GbR VÖB-ImmobilienAnalyse	Bonn	25.00	20.00		n/a	n/a
310	GLB GmbH & Co. OHG [21) 32)]	Frankfurt am Main	30.05		EUR	5 423.81	729.10
311	GLB-Verwaltungs-GmbH [21) 32)]	Lennestadt	30.00		EUR	49.75	2.26
312	Grundstücks-, Vermögens- und Verwaltungs-GbR 31, Esslingen/Stuttgart [1) 21)]	Stuttgart	13.18		EUR	503.46	28.96
313	Grundstücks-Vermögens- und Verwaltungs-GbR Nr. 27, Stuttgart-Mitte II [1) 21)]	Stuttgart	0.13		EUR	8 467.53	45.06
314	Grundstücksverwaltungsgesellschaft Sonnenberg mbH & Co. Betriebs-KG i. L. [1)]	Wiesbaden	5.52			n/a	n/a
315	HANSA TREUHAND Dritter Beteiligungsfonds GmbH & Co. KG [1) 21)]	Hamburg	0.03		EUR	22 430.41	– 21 597.20
316	HANSA TREUHAND Zweiter Beteiligungsfonds GmbH & Co. KG [1) 15)]	Hamburg	0.16		EUR	32 066.52	– 6 076.52
317	Heidelberg Innovation BioScience Venture II GmbH & Co. KG i. L. [1) 21)]	Leimen	3.83		EUR	4 912.34	139.81
318	HGA Mitteleuropa V GmbH & Co. KG [1) 15)]	Hamburg	0.05		EUR	2 471.09	– 528.18
319	HPK Hirschgarten 1 GmbH & Co. KG [1) 21)]	Cologne	5.10		EUR	8 431.22	190.73
320	HSBC Trinkaus & Burkhardt AG [21) 30)]	Düsseldorf	18.66		EUR	1 788 715.35	107 220.13
321	Humboldt Multi Invest B S.C.A., SICAV-FIS i. L. [2) 12)]	Luxembourg, Luxembourg	99.99	99.98	EUR	6 928.35	– 165.43
322	Icon Brickell LLC [1)]	Miami, USA	13.35			n/a	n/a
323	ImmerSight GmbH [1) 21)]	Ulm	0.85		EUR	0.00	– 216.37
324	InnoCyte GmbH i. L. [1) 15)]	Stuttgart	0.75		EUR	0.00	– 719.10

Ser. no.	Name	Place of business	Share of capital	Non-prop. voting rights	Curre ncy	Equity EUR th.	Result EUR th.
325	KanAm USA XXII Limited Partnership [1]	Atlanta, USA	0.04			n/a	n/a
326	Kreditgarantiegemeinschaft der Freien Berufe Baden-Württemberg Verwaltungs-GmbH [21]	Stuttgart	4.76		EUR	153.39	0.00
327	Kreditgarantiegemeinschaft der Industrie, des Verkehrsgewerbes und des Gastgewerbes Baden-Württemberg Verwaltungs-GmbH [21]	Stuttgart	15.28		EUR	1 299.87	0.00
328	Kreditgarantiegemeinschaft des Gartenbaus Baden-Württemberg Verwaltungs-GmbH [21]	Stuttgart	4.50		EUR	138.31	0.00
329	Kreditgarantiegemeinschaft des Handels Baden-Württemberg Verwaltungs-GmbH [21]	Stuttgart	9.14		EUR	1 021.91	0.00
330	Kreditgarantiegemeinschaft des Handwerks Baden-Württemberg Verwaltungs-GmbH [21]	Stuttgart	9.76		EUR	1 001.05	0.00
331	Kunststiftung Baden-Württemberg Gesellschaft mit beschränkter Haftung [21]	Stuttgart	2.00	0.61	EUR	2 915.97	3.64
332	Maehler & Kaege AG i. L. [1,5]	Ingelheim	7.50	9.26	EUR	– 2 041.59	67.06
333	Mainzer Aufbaugesellschaft mit beschränkter Haftung [21]	Mainz	2.70		EUR	20 552.46	584.65
334	MAT Movies & Television Productions GmbH & Co. Project IV i. L. [1,21]	Grünwald	0.22		EUR	553.64	n/a
335	MBG Mittelständische Beteiligungsgesellschaft Baden-Württemberg Gesellschaft mit beschränkter Haftung [21]	Stuttgart	9.94		EUR	60 880.72	4 451.69
336	MFG Flughafen-Grundstücksverwaltungsgesellschaft mbH & Co. BETA KG i. L. [21]	Grünwald	7.97	7.93	EUR	109.05	– 50.04
337	Monolith Grundstücksverwaltungsgesellschaft mbH & Co. Objekt Neubau Sparkassen-Versicherung Sachsen OHG [15,21]	Mainz	10.50	2.66	EUR	– 17 048.76	2 059.87
338	NAVALIA 11 MS »PORT MENIER« GmbH & Co. KG [1]	Bramstedt	0.15			n/a	n/a
339	NESTOR Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Villingen-Schwenningen KG [21,31]	Düsseldorf	5.00		EUR	– 2 991.51	351.59
340	Neumayer Tekfor Verwaltungs GmbH i. L. [1,14]	Offenburg	8.97	0.00	EUR	26.91	– 9.38
341	Notion Systems GmbH [1,21]	Schwetzingen	0.75		EUR	0.00	– 883.63
342	Novoplant Gesellschaft mit beschränkter Haftung i. L. [1,6]	Gatersleben	18.77		EUR	– 5 574.00	– 1 853.00
343	OXID eSales AG [1,21]	Freiburg	19.62		EUR	0.00	94.69
344	teTRAGENEX PHARMACEUTICALS, INC. [1,7]	Baltimore, USA	0.55		USD	5 034 651.12	– 4 189.42
345	Paramount Group Operating Partnership LP [1]	Wilmington, USA	2.47	0.00		n/a	n/a
346	Paramount Group Real Estate Fund II, L. P. [1,21]	Wilmington, USA	29.13	28.29	USD	64 630.33	– 10 359.63
347	PARAMOUNT GROUP REAL ESTATE FUND III, L. P. [1,21]	Wilmington, USA	12.19	11.08	USD	35 829.86	7 735.09
348	Phenex Pharmaceuticals AG [1,21]	Ludwigshafen	8.90		EUR	5 584.13	3 161.57
349	Polish Enterprise Fund V, L. P. [1,21]	New York, USA	1.67		EUR	59 464.16	– 4 345.62
350	PolyAn Gesellschaft zur Herstellung von Polymeren für spezielle Anwendungen und Analytik mbH [1,21]	Berlin	9.93		EUR	7 221.37	– 161.10
351	PressMatrix GmbH [1,21]	Berlin	14.08		EUR	0.00	– 150.97
352	Probiodrug AG [1,21]	Halle/Saale	2.86		EUR	16 474.62	– 13 586.40
353	Rau Metall GmbH & Co. KG i. L. [1,10]	Geislingen/Steige	5.00	0.00	EUR	– 12 457.02	510.67
354	REAL Immobilien GmbH i. L. [1,15]	Hanau	9.00		EUR	– 30 602.47	– 9 117.47
355	Reha-Klinik Aukammtal GmbH & Co. Betriebs-KG i. L. [1]	Wiesbaden	5.54			n/a	n/a
356	Rohwedder AG i. L. [1,8]	Bermatingen	10.01		EUR	11 092.00	– 28 853.00
357	RSU Rating Service Unit GmbH & Co. KG [21]	Munich	18.80		EUR	14 279.53	1 158.67
358	RW Holding AG [19]	Düsseldorf	1.36		EUR	884 619.98	28 140.40
359	RWSO Grundstücksgesellschaft TBS der Württembergischen Sparkassenorganisation GbR [21]	Stuttgart	10.00	8.87	EUR	6 371.45	73.33
360	S CountryDesk GmbH [21]	Cologne	2.50		EUR	369.77	47.45
361	Schiffahrts-Gesellschaft »HS ALCINA«/»HS ONORE«/»HS OCEANO« mbH & Co. KG [1,21]	Hamburg	0.04		EUR	50 551.47	– 3 743.33
362	Schiffahrts-Gesellschaft »HS MEDEA« mbH & Co. KG [1,21]	Hamburg	0.16		EUR	15 753.73	3 850.95
363	SE.M.LABS GmbH [1]	Stuttgart	0.75			n/a	n/a
364	SI-BW Beteiligungsgesellschaft mbH & Co KG [21]	Stuttgart	4.00	3.96	EUR	43 769.85	1 223.15
365	SimuForm GmbH i. L. [1,11]	Herten	6.84		EUR	235.00	– 300.00
366	Synapticon GmbH [1,15]	Gruibingen	0.95		EUR	398.00	– 733.61
367	TETRAGENEX PHARMACEUTICALS, INC. [1,7]	Park Ridge, USA	0.71		EUR	2 201.00	4 580.00
368	tocario GmbH [1,21]	Stuttgart	0.75		EUR	0.00	– 188.14
369	TuP 8 GmbH & Co. KG [1]	Berlin	0.35			n/a	n/a
370	TVM IV GmbH & Co. KG [1,21]	Munich	1.67		EUR	18 399.84	3 287.39
371	VCM Golding Mezzanine GmbH & Co. KG [1,21]	Cologne	3.89		EUR	12 849.63	6 319.20
372	Verband der kommunalen RWE-Aktionäre Gesellschaft mit beschränkter Haftung [26]	Essen	0.40		EUR	348.61	– 214.02
373	Visa Inc. [20]	San Francisco, USA	0.00		USD	28 291 619.26	5 999 241.56
374	VRP Venture Capital Rheinland-Pfalz GmbH & Co. KG i. L. [1,21]	Mainz	16.65		EUR	2 872.26	4 164.45
375	VRP Venture Capital Rheinland-Pfalz Nr. 2 GmbH & Co. KG [1,21]	Mainz	16.65		EUR	3 554.65	2 381.59
376	Wirtschaftsförderung Region Stuttgart GmbH [2,21]	Stuttgart	16.06		EUR	617.71	– 2 409.99

1) Held indirectly.
2) Including shares held indirectly.
3) A letter of comfort exists.
3a) A letter of comfort exists on the part of a Group subsidiary.
4) A profit transfer agreement has been concluded with the company.
4a) A profit transfer and/or control agreement has been concluded with another company.
5) Data available only as of 31 December 2004.
6) Data available only as of 31 December 2006.
7) Data available only as of 31 December 2007.
8) Data available only as of 31 December 2008.
9) Data available only as of 31 December 2011.
10) Data available only as of 31 December 2012.
11) Data available only as at 31 December 2013.
12) Data available only as of 31 July 2014.
13) Data available only as of 2 September 2014.
14) Data available only as of 13 October 2014.
15) Data available only as of 31 December 2014.
16) Data available only as of 25 November 2016.
17) Data available only as of 31 March 2015.
18) Data available only as of 13 June 2015.
19) Data available only as of 31 August 2015.
20) Data available only as of 30 September 2015.
21) Data available only as of 31 December 2015.
21a) Data available only as at 31 December 2015 in accordance with IFRS.
22) Data available only as of 22 February 2016.
23) Data available only as of 29 February 2016.
24) Data available only as of 31 March 2016.
25) Data available only as of 30 April 2016.
26) Data available only as of 30 June 2016.
27) Financial instruments pursuant to IFRS.
28) Final balance sheet.
29) Abridged financial year.
30) Equity investment in a large corporation (Kapitalgesellschaft) with a share of at least 5 % in voting rights (Section 340a (4) no. 2 HGB).
31) Is a structured entity in accordance with IFRS 12 at the same time.
32) Liquidation is expected.
33) No shareholdings within the meaning of Section 285 no. 11 HGB.

77. Employees.

On average, the number of employees is as follows:

	2016			2015		
	Male	Female	Total	Male	Female	Total
Full-time	4 957	3 128	8 085	5 055	3 296	8 352
Part-time	251	2 612	2 864	214	2 544	2 757
Trainees[1]	240	178	417	261	196	457
Total	**5 448**	**5 918**	**11 366**	**5 529**	**6 036**	**11 565**

1) Including students at universities of cooperative education.

CONSOLIDATED FINANCIAL STATEMENTS

78. Executive and supervisory bodies and positions held.

Members of the Board of Managing Directors and supervisory bodies.

Board of Managing Directors.

Chairman.

RAINER NESKE
as of 1 November 2016
Member as of 1 July 2016

HANS-JÖRG VETTER
until 31 October 2016

Deputy Chairman.

MICHAEL HORN

Members.

KARL MANFRED LOCHNER

INGO MANDT
until 31 December 2016

DR. CHRISTIAN RICKEN
as of 1 January 2017

ALEXANDER FREIHERR VON USLAR-GLEICHEN

VOLKER WIRTH

Supervisory Board.

Chairman.

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

Deputy Chairpersons.

EDITH SITZMANN MDL
as of 4 August 2016
Minister of Finance and Economics of the State of Baden-Württemberg

DR. NILS SCHMID MDL
until 30 May 2016
Retired Minister

Members.

CARSTEN CLAUS
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 Württembergische Gemeinde-Versicherung a.G.

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
CFO/Managing Partner of Eberspächer Gruppe GmbH + Co. KG

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

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	2016	2015	2016	2015
Remuneration				
Salaries, remuneration and short-term benefits[1)]	7.8	7.4	1.0	1.0
Post-employment benefits (total obligations from defined benefit obligations)	25.5	22.6	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)	153.8	153.8	0.0	0.0

1) including attendance allowance.

As at 31 December 2016, loans granted to members of the Board of Managing Directors and members of the Supervisory Board amounted to EUR 3 million (previous year: EUR 1 million), of which EUR 2 million (previous year: EUR 0 million) were accounted for members of the Board of Managing Directors and EUR 1 million (previous year: EUR 1 million) for members of the Supervisory Board.

No advances or other liability relationships were granted in the 2016 financial year.

The loans were extended with an interest rate of between 1.92 % and 5.16 % and have a remaining term extending from a few months to 35 years. The banking transaction were concluded with all of the cited persons at arm’s length terms and collateral requirements.

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:

Society	Position	Incumbent
B+S Card Service GmbH, Frankfurt am Main	Supervisory Board	Helmut Dohmen
Boerse Stuttgart GmbH, Stuttgart	Supervisory Board	Ingo Mandt (until 31 December 2016)
Bürgschaftsbank Sachsen GmbH, Dresden	Member of the Board of Directors Deputy Member of the Board of Directors	Oliver Fern Peter Kröger
cellent AG, Stuttgart	Deputy Chairman of the Supervisory Board Deputy Chairman of the Supervisory Board	Eike Wahl (until 5 January 2016) Frank Hammann (until 5 January 2016)
Düker GmbH & Co. KGaA, Karlstadt	Chairman of the Supervisory Board	Dr. Georg Hengstberger
Euwax AG, Stuttgart	Supervisory Board	Ingo Mandt (until 31 December 2016)
Grieshaber Logistik GmbH, Weingarten	Supervisory Board	Michael Horn
HERRENKNECHT Aktiengesellschaft, Schwanau	Chairman of the Supervisory Board	Hans-Jörg Vetter (until 31 October 2016)
HSBC Trinkaus & Burkhardt AG, Düsseldorf	Supervisory Board	Hans-Jörg Vetter (until 31 October 2016)
LBBW Asset Management Investmentgesellschaft mbH, Stuttgart	Chairman of the Supervisory Board Deputy Chairman of the Supervisory Board Member of the Supervisory Board Member of the Supervisory Board Member of the Supervisory Board Member of the Supervisory Board	Ingo Mandt (until 31 December 2016) Hans-Jörg Vetter (until 31 October 2016) Rainer Neske (as of 12 December 2016) Helmut Dohmen (until 30 September 2016) Norwin Graf Leutrum von Ertingen (until 12 October 2016) Michael Nagel (as of 1 October 2016) Rainer Neske (as of 1 November 2016 until 11 December 2016)
LBBW (Schweiz) AG, Zurich	Chairman of the Board of Directors	Michael Horn
MKB Mittelrheinische Bank GmbH, Koblenz	Chairman of the Supervisory Board Deputy Chairman of the Supervisory Board Member of the Supervisory Board	Karl Manfred Lochner Volker Wirth Peter Hähner
MMV Leasing GmbH, Koblenz	Chairman of the Advisory Board Deputy Chairman of the Advisory Board Member of the Advisory Board	Karl Manfred Lochner Volker Wirth Peter Hähner
Progress-Werke Oberkirch AG, Oberkirch	Supervisory Board	Dr. Georg Hengstberger
Siedlungswerk GmbH Wohnungs- und Städtebau, Stuttgart	Deputy Chairman of the Supervisory Board Member of the Supervisory Board Member of the Supervisory Board	Michael Horn Thorsten Schönenberger Thomas Christian Schulz
Stadtwerke Mainz Aktiengesellschaft, Mainz	Supervisory Board	Hannsgeorg Schönig
SüdFactoring GmbH, Stuttgart	Chairman of the Supervisory Board Deputy Chairman of the Supervisory Board Member of the Supervisory Board	Karl Manfred Lochner Volker Wirth Norwin Graf Leutrum von Ertingen
SüdLeasing GmbH, Stuttgart	Chairman of the Supervisory Board Deputy Chairman of the Supervisory Board Member of the Supervisory Board	Karl Manfred Lochner Volker Wirth Norwin Graf Leutrum von Ertingen
Vorarlberger Landes- und Hypothekenbank AG, Bregenz	Supervisory Board	Michael Horn
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, 7 March 2017

Board of Managing Directors

RAINER NESKE
Chairman

MICHAEL HORN
Deputy Chairman

KARL MANFRED LOCHNER

DR. CHRISTIAN RICKEN

ALEXANDER FREIHERR VON USLAR-GLEICHEN

VOLKER WIRTH

Auditor's report.

»We have audited the consolidated financial statements prepared by Landesbank Baden-Württemberg, Stuttgart, Karlsruhe, Mannheim and Mainz, comprising the income statement, total comprehensive income, balance sheet, statement of changes in equity, cash flow statement and the notes to the financial statements, together with its report on the position of the Company and the Group (combined management report) for the business year from 1 January to 31 December 2016. The preparation of the consolidated financial statements and the combined management report in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315a (1) HGB (Handelsgesetzbuch – German Commercial Code) are the responsibility of the Company's Board of Managing Directors. Our responsibility is to express an opinion on the consolidated financial statements and on the combined management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Section 317 HGB and the German generally accepted standards for the audit of financial statements promulgated by the German Institute of Public Auditors (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the combined management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the combined management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the combined management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs as adopted by the EU, the additional requirements of German commercial law pursuant to Section 315a (1) HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The combined management report is consistent with the consolidated financial statements, complies with the German statutory requirements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.«

Stuttgart, 14 March 2017

KPMG AG
Wirtschaftsprüfungsgesellschaft

KOCHOLL	**EISELE**
Wirtschaftsprüfer	Wirtschaftsprüfer

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.

Advisory Board of LBBW/BW-Bank.

Chairman.

CHRISTIAN BRAND
Chairman of the Supervisory Board of Landesbank Baden-Württemberg, Stuttgart

Members.

WILLEM G. VAN AGTMAEL
Honorary Consul of the Kingdom of the Netherlands, Managing Partner of catalpa GmbH, Stuttgart

THOMAS ARTMANN
Karlsruhe

**PROF. H. C.
DR. STEFAN ASENKERSCHBAUMER**
Deputy Chairman of the Board of Management of Robert Bosch GmbH, Gerlingen

HELMUT AURENZ
Honorary Consul of the Republic of Estonia, Senator h. c., Isny im Allgäu

BARBARA BAUER
Member of the Board of Evangelische Landeskirche in Baden, Karlsruhe

HUBERTUS VON BAUMBACH
Chairman of the Board of Managing Directors of Boehringer Ingelheim GmbH, Ingelheim am Rhein

ALBERT BERNER
Chairman of the Supervisory Board of Berner SE, Künzelsau

DIETMAR BICHLER
Chairman of the Board of Managing Directors of Bertrandt AG, Ehningen

DR. DR. SASKIA BISKUP
Managing Director of CeGaT GmbH, Tübingen

ULRICH BÖGER
as of 1 October 2016
Deputy Chairman of the Board of Managing Directors of Bayerische Versorgungskammer, Munich

GERHARD BORHO
as of 1 October 2016
Member of the Board of Managing Directors of Festo AG & Co. KG, Esslingen

DR. CHRISTOF BOSCH
Königsdorf

DR. WOLFGANG BRUDER
Senator E. h., Chairman of the Board of Managing Directors (retired), Offenburg

CATHARINA CLAY
Deputy Regional Chairman of IG BCE Industriegewerkschaft Bergbau, Chemie, Energie, Landesbezirk Baden-Württemberg, Stuttgart

DR. ANTJE VON DEWITZ
Managing Director of VAUDE Sport GmbH & Co. KG, Tettnang

PEER-MICHAEL DICK
Lawyer, General Manager of SÜDWESTMETALL Verband der Metall- und Elektroindustrie Baden-Württemberg e. V., Stuttgart

WOLF-GERD DIEFFENBACHER
Managing Partner of DIEFFENBACHER GMBH Maschinen- und Anlagenbau, Eppingen

RALF W. DIETER
Chairman of the Board of Managing Directors of Dürr AG, Bietigheim-Bissingen

PROF. DR. ANDREAS DULGER
Honorary Consul of the Republic of Paraguay, Chairman of the Board of Management of ProMinent Dosiertechnik GmbH, Heidelberg

DR. HANS-ULRICH ENGEL
Member of the Board of Managing Directors of BASF SE, Ludwigshafen

KLAUS ENSINGER
Managing Director of Ensinger GmbH, Nufringen

DR. ALEXANDER ERDLAND
President of Gesamtverband der Deutschen Versicherungswirtschaft e. V., Stuttgart

DR. MARKUS FAULHABER
Chairman of the Board of Managing Directors of Allianz Lebensversicherungs-AG, Stuttgart

PROF. E. H. KLAUS FISCHER
Senator E. h. mult.,
Owner and Chairman of fischer holding GmbH & Co. KG, Waldachtal

DR. WOLFGANG FISCHER
Deputy Chairman of the Board of Managing Directors of Stuttgarter Versicherungsgruppe, Stuttgart

DR. WOLFRAM FREUDENBERG
Stuttgart

HANS-GEORG FREY
Chairman of the Board of Managing Directors of Jungheinrich AG, Hamburg

PROF. DR. DR. H. C. CLEMENS FUEST
President of ifo Institut – Leibniz-Institut für Wirtschaftsforschung an der Universität München e. V., Munich

THOMAS HANDTMANN
Managing Director of Albert Handtmann Holding GmbH & Co. KG, Biberach

HANS-JOACHIM HAUG
Chairman of the Board of Managing Directors of Württembergische Gemeinde-Versicherung a. G., Stuttgart

DR. JOHANNES HAUPT
Chairman of the Board of Management/ CEO of E.G.O. Blanc und Fischer & Co. GmbH, Oberderdingen

DR. CHRISTOPHER HERMANN
Chairman of the Board of Managing Directors of AOK Baden-Württemberg, Stuttgart

TILMANN HESSELBARTH
Chairman of the Board of Managing Directors of LBS Landesbausparkasse Südwest, Stuttgart

MICHAEL HIMMELSBACH
Archiepiscopal Bishopric, Seat of the Freiburg Archdiocese, Freiburg i. Br.

**S. D. KRAFT ERBPRINZ
ZU HOHENLOHE-OEHRINGEN**
Fürst zu Hohenlohe-Oehringen'sche Verwaltung, Öhringen

**S. H. KARL FRIEDRICH FÜRST
VON HOHENZOLLERN**
Unternehmensgruppe
Fürst von Hohenzollern, Sigmaringen

FRANK B. JEHLE
President/Managing
Partner of FBJ Board Consulting GmbH,
Marbach am Neckar

HARTMUT JENNER
Chairman of the Board of Management of
Alfred Kärcher GmbH & Co. KG
Reinigungssysteme, Winnenden

PROF. DR. HEINZ K. JUNKER
Chairman of the Supervisory Board
of MAHLE GmbH, Stuttgart

DANIEL F. JUST
until 30 September 2016
Chairman of the Board of Managing
Directors of Bayerische
Versorgungskammer, Munich

DIRK KALIEBE
Member of the Board of Managing
Directors of Heidelberger
Druckmaschinen AG, Heidelberg

JOACHIM KALTMAIER
Member of the Central Managing Board
of Würth-Gruppe, Künzelsau

DR. BERTRAM KANDZIORA
Chairman of the Board of Managing
Directors of STIHL AG, Waiblingen

DR. MARTIN KASTRUP
Member of the Board and Head of Finance
and IT of Evangelische Landeskirche
in Württemberg, Stuttgart

DR. ERWIN KERN
Chairman of the Board of Managing
Directors of Kies und Beton AG
Baden-Baden, Iffezheim

DR. HANS-EBERHARD KOCH
Chairman of the Board of Management of
Witzenmann GmbH, Pforzheim

PROF. DR. RENATE KÖCHER
Managing Director of Institut für
Demoskopie Allensbach Gesellschaft zum
Studium der öffentlichen Meinung mbH,
Allensbach am Bodensee

STEFAN KÖLBL
Chairman of the Board of Managing
Directors of DEKRA e.V. and DEKRA SE,
Stuttgart

THOMAS KÖLBL
Member of the Board of Managing
Directors of Südzucker AG, Mannheim

ANDREAS KOHM
Partner of
K-Mail Order GmbH & Co. KG, Pforzheim

ALEXANDER KOTZ
City Councilor, Chairman of the CDU
Parliamentary Group in the City Council of
the State Capital Stuttgart, Stuttgart

DIETMAR KRAUSS
Managing Director, Seat of the
Rottenburg-Stuttgart Diocese, Rottenburg

DR. DIETER KRESS
until 31 March 2016
Managing Partner of MAPAL
Präzisionswerkzeuge Dr. Kress KG, Aalen

DR. JOCHEN KRESS
as of 1 July 2016
Managing Director of MAPAL
Präzisionswerkzeuge Dr. Kress KG, Aalen

HARALD KROENER
Chairman of the Board of Managing
Directors of Wieland-Werke AG, Ulm

DR. PETER KULITZ
President of the Ulm Chamber of Industry
and Commerce, Managing Partner of ESTA
Apparatebau GmbH & Co. KG, Ulm

ANDREAS LAPP
Honorary Consul of the Republic of India,
Chairman of the Board of Managing
Directors of Lapp Holding AG, Stuttgart

VITTORIO LAZARIDIS
City Councilor, Stuttgart

DIETER LEBZELTER
Managing Director of IMS Gear GmbH,
Donaueschingen

DR. NICOLA LEIBINGER-KAMMÜLLER
Chairman of the Board of Management,
Managing Partner of TRUMPF GmbH
+ Co. KG, Ditzingen

DR. HUBERT LIENHARD
Chairman of the Board of Management of
Voith GmbH, Heidenheim

REINHARD LOHMANN
Deputy Chairman of the Supervisory Board
of Rethmann SE & Co. KG, Selm

DR. UTE MAIER
Chairman of the Board of Managing
Directors of Kassenzahnärztliche
Vereinigung Baden-Württemberg,
Tübingen

DR. HARALD MARQUARDT
Managing Director of Marquardt GmbH,
Rietheim-Weilheim

DR. FRANK MASTIAUX
Chairman of the Board of Managing
Directors of EnBW Energie
Baden-Württemberg AG, Karlsruhe

MICHAEL MÖLLEKEN
until 30 September 2016
Stuttgart

DR. MICHAEL MÜNZING
Managing Partner of MÜNZING CHEMIE
GMBH, Heilbronn

KLAUS MUTSCHLER
Mutschler Holding AG, Zurich

HEINZ OHNMACHT
Chairman of the Board of Managing
Directors of Badischer Gemeinde-
Versicherungs-Verband,
BGV-Versicherung AG, Karlsruhe

CHRISTOPH OZASEK
City Councilor, Stuttgart

MARTIN PETERS
CFO/Managing Partner of
Eberspächer Gruppe GmbH + Co. KG,
Esslingen

HANS H. PFEIFER
City Councilor, Deputy Chairman of the
SPD Parliamentary Group in the City
Council of the State Capital Stuttgart,
Stuttgart

HANS DIETER PÖTSCH
Chairman of the Supervisory Board of
VOLKSWAGEN Aktiengesellschaft,
Wolfsburg

MARTIN PUTSCH
Managing Partner of RECARO Holding
GmbH, Stuttgart

DR. RICHARD REBMANN
Chairman of the Board of Management of
Südwestdeutsche Medien Holding GmbH,
Stuttgart

FRANK REIMOLD
Director, Kommunaler
Versorgungsverband Baden-Württemberg,
Karlsruhe

DR. KONSTANTIN SAUER
as of 1 January 2017
Chairman of the Board of Managing
Directors of ZF Friedrichshafen AG,
Friedrichshafen

WOLF-HENNING SCHEIDER
Chairman of the Management
of MAHLE GmbH, Stuttgart

PROF. H. C. KARL SCHLECHT
Senator h.c., Chairman of the Board of
Managing Directors of Karl Schlecht-
Gemeinnützige Stiftung (K.S.G.), Aichtal

EDUARD SCHLEICHER
Personally liable Partner of SCHWENK Zement KG, Ulm

DR. STEFAN SCHMALE
Gräfelfing

MARTIN SCHOMAKER
Chairman of the Board of Managing Directors of R. Stahl AG, Waldenburg

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Glossary.

Backtesting.
Evaluation process designed to examine the quality of risk models. The process establishes whether the actual losses incurred during a period fall within the range projected by the model.

CRR/CRD IV.
The EU package of regulations to implement Basel III, which came into force in 2014, created uniform rules for banks across Europe (Single Rulebook). The Capital Requirements Regulation (CRR) has immediate legal force; among other things, it sets out the minimum equity and liquidity requirements for banks. The EU Capital Requirements Directive (CRD IV) was transposed into national law. It contains provisions that affect banks as well as responsible supervisory authorities. Transitional provisions will apply until the full implementation of CRR/CRD IV in 2021.

EMIR.
The requirements set out in the European Market Infrastructure Regulation (EMIR) are designed to curb systemic risks in the European derivatives market. EMIR leads to obligations for certain parties to derivative transactions. Not least of all, it aims to make over-the-counter (OTC) derivatives trading more transparent and secure. In particular, the G20 decided that in future, standardized OTC derivatives must be processed via central counterparties and OTC derivatives must be reported to transaction registers.

EBA (European Banking Authority) stress test.
In 2015, an EBA transparency exercise was conducted rather than a stress test. The exercise did not contain any stress or simulation fluctuations. In 2016, an EBA transparency exercise was performed, as was a stress test defined by EBA.

Fair value.
Measurement in IFRS accounting. It describes the amount for which a financial instrument can be exchanged between knowledgeable, willing parties in an arm 's length transaction.

Total capital ratio.
Capital ratio which sets a financial institution's equity in relation to risk weighted assets. This means that, unlike the common equity Tier 1 ratio, additional Tier 1 capital and supplementary capital are also included in the calculation, as further capital components.

Common equity Tier 1 ratio.
Capital ratio in which the common equity Tier 1 capital of a bank (consisting primarily of the paid-in share capital and open reserves less regulatory adjustments and capital deductions) is set against the risk weighted assets.

Hybrid capital.
Capital that incorporates features of equity as well as characteristics of debt capital. It includes, for example, profit participation certificates and silent partners' contributions.

Internal control system.
The internal control system (ICS) ensures the efficiency of business activities, compliance with important regulatory provisions and protection of bank assets.

Leverage ratio.
Non-risk-adjusted debt ratio of a bank. The Basel Committee uses this ratio to create a counterweight to the risk-based capital ratios. The leverage ratio places the core capital in relation to the non-risk-weighted balance-sheet and off-balance-sheet items.

MaRisk.

The Minimum Requirements for Risk Management (MaRisk) include rules for the design of risk management in German financial institutions. This includes guidelines on the organizational structure and requirements for processes.

MaSan.

Banks are required to make preparations for dealing with crisis situations on the basis of the Minimum Requirements for the Design of Recovery Plans. A recovery plan must provide options for action for a potential crisis case in order to increase the financial institution's resilience.

MiFID II.

Revision of the European Markets in Financial Instruments Directive (MiFID). The MiFID is supplemented by the Markets in Financial Instruments Regulation (MiFIR). MiFID and MiFIR include extensive provisions on customer-related securities services and for greater regulation of trading in complex financial instruments, in particular.

Risk taker.

Employees who exercise an activity with a substantial impact on an institution's risk profile. Every institution must determine its group of risk takers annually on the basis of the framework stipulated by law.

Risk weighted assets.

In calculating risk weighted assets, the risks (credit, market-price, settlement and operational risks) as well as the overall risk amount due to the adaptation of the credit assessment (CVA), are weighted based on regulatory requirements.

Single Supervisory Mechanism (SSM).

On 4 November 2014 the ECB took over supervision of LBBW within the framework of the Single Supervisory Mechanism (SSM). In this connection LBBW has been assigned to Directorate General I within the ECB's banking supervisory authority, which monitors the 30 most important banks. In doing so, a core task of the ECB is to independently evaluate and review the capital and liquidity resources of the banks. These measures are based on the Supervisory Review and Evaluation Process (SREP).

Supervisory Review and Evaluation Process (SREP).

Appraising and monitoring process of the responsible supervisory authorities, the result of which is reflected in an appraisal grade. The annual process includes appraising the business strategy, methods and processes, as well as capital and liquidity provision. Using the results of the appraisal, the responsible supervisory authority can derive capital and liquidity requirements and operational requirements for each separate institution.

Dual bank regulation.

The separation of certain trading and credit activities from the deposit-taking business is designed to prevent the use of customers' savings deposits to finance and cover the losses from this trading and credit business. While the German Ring-Fencing Act (Trennbankengesetz), which has already been adopted, has had to be adhered to from July 2016 and parts of the US Volcker Rule have had to be observed since July 2015, the legislative process at EU level is ongoing.

Value-at-risk.

Value-at-risk (VaR) states which loss will not be exceeded within a defined period with a high probability (confidence level).

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Overview of the LBBW Group.

Landesbank Baden-Württemberg (LBBW).

LBBW is one of the largest banks in Germany. LBBW – together with its three regional customer banks BW-Bank, LBBW Rheinland-Pfalz Bank and LBBW Sachsen Bank – serves all the key customer groups of a modern universal bank in its domestic market and at selected locations abroad.

LBBW focuses on large companies with a particularly international outlook (large corporates), commercial real estate companies, institutional customers and savings banks.

At LBBW, sales in the regional business – primarily with small and medium-sized enterprises and private customers – are performed by local customer banks. They can thus combine geographical closeness with the range of products and services plus the efficiency of larger institutions.

Baden-Württembergische Bank (BW-Bank).

BW-Bank is the number one address for corporate customers in Baden-Württemberg and also serves firms in Bavaria. It focuses its operations especially on customers in the small and medium-sized enterprise segment. Additionally, BW-Bank fulfills the role of a municipal savings bank in the state capital of Stuttgart. It also offers retail bank services to private customers in Baden-Württemberg. In doing so, the main focus is on upper retail customers with a greater need for advisory services and sophisticated products.

A further core competence of BW-Bank is wealth management. In Baden-Württemberg – and also at various locations across Germany – it advises high net-worth customers on complex financial matters.

LBBW Rheinland-Pfalz Bank.

Rheinland-Pfalz Bank focuses its operations particularly on the SME business in Rhineland-Palatinate, North-Rhine Westphalia, Hesse and Hamburg.

LBBW Sachsen Bank.

Under the umbrella of Sachsen Bank, LBBW assists its corporate SME customers as well as its upper retail customers in Saxony and neighboring economic areas.

Other group companies.

The range of services and products offered by the Bank within the Group is enhanced by subsidiaries specializing in specific business areas, such as leasing, factoring, asset management, real estate and equity finance.

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