Annual Report 2014.

Landesbank Baden-Württemberg

LBBW

Key figures of the LBBW Group.

Income statement (EUR million)	1 Jan. – 31 Dec. 2014	1 Jan. – 31 Dec. 2013 [1)]
Net interest income	1 878	1 773
Allowances for losses on loans and advances	– 104	– 314
Net fee and commission income	518	545
Net gains/losses from financial instruments measured at fair value through profit or loss	– 120	369
Net gains/losses from financial investments, net income/expenses from investments accounted for using the equity method and from profit/loss transfer agreements	263	16
Other operating income/expenses[2)]	101	113
Total operating income/expenses (after allowances for losses on loans and advances)	**2 536**	**2 502**
Administrative expenses	– 1 853	– 1 774
Operating result	**683**	**728**
Guarantee commission for the State of Baden-Württemberg	– 191	– 300
Impairment of goodwill	– 16	– 3
Net income/expenses from restructuring	1	48
Net consolidated profit/loss before tax	**477**	**473**
Income tax	– 43	– 134
Net consolidated profit/loss	**434**	**339**
Key figures in %	1 Jan. – 31 Dec. 2014	1 Jan. – 31 Dec. 2013 [1)]
Return on equity (RoE)	3.7	3.7
Cost income ratio (CIR)	77.9	63.4
Balance sheet figures (EUR billion)	31 Dec. 2014	31 Dec. 2013
Total assets	266.2	274.6
Equity	13.2	13.4
Ratios in accordance with CRR/CRD IV (with transitional rules)[3)]	31 Dec. 2014	31 Dec. 2013
Risk weighted assets (EUR billion)	82.2	79.4
Common equity Tier 1 (CET 1) capital ratio (in %)	14.6	15.7
Total capital ratio (in %)	19.9	22.5
Ratios in accordance with CRR/CRD IV (Basel III after full implementation)	31 Dec. 2014	31 Dec. 2013
Risk weighted assets (EUR billion)	82.2	89.8
Common equity Tier 1 (CET 1) capital ratio (in %)	13.6	12.6
Total capital ratio (in %)	18.9	18.7
Employees	31 Dec. 2014	31 Dec. 2013
Group	11 117	11 308

Rating (2 March 2015)

Rating agency	Long-term rating guaranteed obligations	Long-term rating non-guaranteed obligations	Financial strength	Public-sector covered bonds	Mortgage-backed covered bonds
Moody's Investors Service	Aaa	A2[4)]	D+	Aaa	Aaa
Fitch Ratings	AAA	A+[4)]	bbb	AAA	–

1) After taking into account adjustments pursuant to IAS 8 and IFRS 10.
2) Net income/expenses from investment property is recognized as part of the other operating income/expenses.
3) Previous year in accordance with SolvV (Basel 2.5).
4) Rating outlook negative.
Figures may be subject to rounding differences.

2014

Foreword and Reports.

Foreword by the Board of Managing Directors.

Dear customers, dear business partners of the LBBW Group,

Conditions in the banking sector remain challenging. In particular, the low interest rates, intense competition in the German banking market and the good liquidity situation of companies in general, which continued to be reflected in muted demand for loans in the first half of 2014 in particular, are resulting in challenging conditions. The global trend of digitalization, which is increasingly permeating all areas of life, is forcing banks to modify their products and processes accordingly. At the same time, the trend toward substantially more stringent prudential and regulatory requirements continues. The increasingly far-reaching regulation goes hand in hand with considerable challenges and burdens for the sector.

Given these underlying conditions, we are satisfied with the net consolidated profit before tax of EUR 477 million that we generated in the 2014 financial year. This result slightly exceeds the pre-year figure and is fully in line with our expectations. After taxes, consolidated net profit came to EUR 434 million (previous year: EUR 339 million). At the level of LBBW Bank, we generated net profit before taxes and hybrid capital service of EUR 424 million in 2014.

The net consolidated profit continues the series of net profits for our Company recorded since 2011. It shows that thanks to our systematic customer-oriented focus and reduction in risk weighted assets we have been able to reposition LBBW to ensure its sustained stability and viability.

In view of the difficult setting in the banking industry we are not dissatisfied with the net profit before tax of EUR 1,067 million generated in our three operating segments, particularly since we successfully further developed our customer business in many areas in 2014.

In the corporate customer business, we recorded growing momentum as the year progressed following a muted start in the first half of the year. We were able to gain a number of new customers and realized a number of attractive deals particularly among large companies and in commercial real estate financing. This shows us that our Company is now increasingly being perceived in a positive light once again, and not only by investors and rating agencies but also, at the same time, by a rising number of companies who appreciate us as a competent and reliable partner. We expect the selective expansion of our presence at attractive locations outside our core regions to support this development further.

We were also able to secure new customers in wealth management. In private customer business we have been working over the past year to present our customers with even more attractive offerings going beyond the usual network of branches. To this end, new concepts were implemented that take into account the growing digitalization and use of new media. Among other things, we have introduced video consultation. Within our service partnership with the savings banks we see further potential in market partner business, in particular, which we seek to exploit further in collaboration with the savings banks.

Beyond our customer business, we continued to reduce the credit substitute business left over from the time before the Bank's realignment in 2014. In particular, the remainder of LBBW's securitization portfolio secured by a guarantee of our Company's owners was sold off. For us, this marked a further major step toward focusing our resources in full on our core business going forward. Moreover, as planned we repaid silent partners' contributions of EUR 1 billion to our owners in the first half of 2014. This was done with the approval of the banking supervisory authority and had no effect on the value of the common equity Tier 1 ratio in accordance with CRR/CRD IV after full implementation, which comes to 13.6% within the Group as at 31 December 2014.

A particular challenge in 2014 was the transition of the supervisory function to the European Central Bank in early November. The comprehensive assessment that preceded this transition tied up considerable capacity and resources within the Bank. However, the result has confirmed that LBBW's capitalization is solid and its stress resistance high. Even in the adverse scenario of the stress test, which assumed a pronounced economic slump and marked disruption on the financial markets, the common equity Tier 1 ratio of our Company was well above the minimum demanded by the supervisory authority.

However, the costs and requirements our Company will have to shoulder are set to rise permanently as a result of the Single Supervisory Mechanism under the roof of the ECB. This applies not least with regard to technical system requirements. Against this backdrop, but also in light of market-induced changes, we will continue to invest in the efficiency of our structures and processes over the coming years. In this connection, we still view the decision to outsource large parts of our IT to Finanz Informatik (FI) as an important and strategically correct choice. It allows us to cost-effectively develop our IT landscape further in collaboration with a strong partner and to adapt it to future challenges.

We expect the underlying conditions in the German banking market in 2015 to remain challenging. In this setting we expect LBBW's net consolidated profit before taxes to record a further modest year-on-year increase unless unforeseen market turbulence or an unexpectedly pronounced economic slump occurs.

Over the next few years the underlying regulatory conditions together with global trends should lead to an ongoing need for adjustment and to a continuing process of change within the banking industry. On top of this, there are geopolitical hotspots whose reverberations cannot at present be estimated. The steady courage to embrace change, a good market position and a sustained and viable business model will thus be major prerequisites of success. We see good opportunities for our Bank in this regard.

As always, we would like to take this opportunity to express our thanks to you, our customers and business partners, for the trust you place in our Bank – those who have been associated with us for many years but also particularly those we gained in 2014. We hope to remain the Bank of your choice in future and, together with our employees, look forward to the opportunity to convince you once again with our services and our products in 2015. We would like to thank our owners of many years' standing for another year of collaboration based on mutual trust.

Yours sincerely

The Board of Managing Directors

HANS-JÖRG VETTER
Chairman

MICHAEL HORN
Deputy Chairman

KARL MANFRED LOCHNER

INGO MANDT

DR. MARTIN SETZER

ALEXANDER FREIHERR VON USLAR-GLEICHEN

VOLKER WIRTH

Report of the Supervisory Board.

Ladies and gentlemen,

In the past financial year we advised the Board of Managing Directors Directors of LBBW on the management of the Company and regularly monitored its performance. The Board of Managing Directors of Landesbank Baden-Württemberg regularly informed us on major developments within the Bank and the Group in 2014 in a timely and comprehensive manner. We intensively discussed the economic situation of the individual business units and the business situation of the LBBW Group with the Board of Managing Directors. Moreover, we were kept abreast of the risk, liquidity and capital management of the Bank, as well as of transactions and events of considerable importance for the Bank, and advised the Board of Managing Directors Directors on these matters. In addition to this, we exchanged ideas with the Board of Managing Directors on significant developments in the establishment of the European Banking Union while critically scrutinizing and monitoring LBBW's management and corporate planning. Between the meetings I, in my capacity as Chairman of the Supervisory Board, maintained regular contact with the Chairman of the Board of Managing Directors. The Supervisory Board was involved in decisions of major importance for LBBW and, when required, granted its approval after extensive consultation and examination. The Supervisory Board and its committees performed the duties entrusted to them in accordance with the law and the articles of association.

In the past financial year the entire financial sector was affected to a considerable degree by the Europe-wide comprehensive assessment carried out by the European Central Bank. The fact that LBBW significantly exceeded the minimum figures set by the ECB in the individual scenarios in the stress test at the end of October confirms LBBW's sound capitalization and high level of resistance to stress. The resolute reduction of risks in recent years, the solid equity basis and the rapid implementation of restructuring have thus proved to be right and provide LBBW with sufficient leeway to further develop its customer-oriented business model.

Supervisory Board meetings.

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

All the ordinary meetings of the Supervisory Board dealt with the regular reports submitted by the Board of Managing Directors on the ongoing situation, in particular the risk position, current income and expenditure trends, the development of risk and capital ratios and corresponding comparisons between actual figures and targets as well as the detailed reports from the committees drawn up by the respective committee chairpersons. We critically reviewed the reports of the Board of Managing Directors for the Supervisory Board and its committees and, in some cases, requested additional information, which was always provided promptly and to our satisfaction. Where necessary, we passed the requisite resolutions on matters relating to the Board of Managing Directors and in response to changes in the in the corporate bodies. In 2014, we again deliberated on numerous statutory and regulatory changes. Apart from the transfer of European banking supervision to the ECB and the concomitant time and activity schedule for the comprehensive assessment ahead of this, these included for example the debates on and effects of the minimum requirements for designing recovery plans, the EU bank levy, the bail-in liability cascade, the current trend in the area of negative credit interest and the further development from Basel III to Basel IV.

Our first meeting of the year on 28 March 2014 was dominated by the 2013 financial statements. The basis for the resolution comprised the recommendations of the Audit Committee and the subsequent detailed discussions with the statutory auditor KPMG. In the course of the meeting we acknowledged the report by the Board of Managing Directors on the 2013 financial year, approved the 2013 financial statements and acknowledged the consolidated financial statements for 2013. In addition to this we approved the proposal made by the Audit Committee and recommended to the annual general meeting that KPMG be appointed as statutory auditor in accordance with Section 36 of the German Securities Trading Act (WpHG) for the 2014 financial year.

In the course of its current reporting the Board of Managing Directors informed us that the Federal Financial Supervisory Agency (BaFin) has granted the required approval of LBBW's plan to repay one billion euros in silent partners' contributions to its owners and that the contracts to this effect have been signed by the owners and LBBW. Furthermore, we held in-depth deliberations on adapting the existing bylaws of the Supervisory Board and its committees as well as dealing with the drawing up of bylaws for the Compensation Control Committee as required by the amended German Banking Act and passing corresponding resolutions. In addition to this, in the course of this meeting we discussed LBBW's proposal to appoint a Compensation Officer and took note of the report on the 2013 compensation structure.

At the meeting on 16 May 2014 we exchanged views on consumer legislation, among other things, and obtained information on material developments within the European Banking Union and on the comprehensive assessment associated with it. We also looked at the economic setting and interest rate trends. A further focus of the meeting related to the strategy in corporate customer business and checking the efficiency of and evaluating the Board of Managing Directors and the Supervisory Board in 2014. Moreover, we approved various changes in the Advisory Board of LBBW/BW-Bank and in the Audit Committee and Risk Committee.

At the meeting on 28 July 2014 we discussed the possible sale of the entire guarantee portfolio. This was done within the framework of regular reporting to the Supervisory Board against the backdrop of the market situation, which was still favorable at the time, and possible future volatility on the capital market in the wake of the European debt crisis and political turmoil. At this meeting we also once again dealt with the ECB's time and activity schedule for the comprehensive assessment. We also obtained information on the status of the LBBW CZ sales process. Further important aspects of the meeting were the presentations given by the Operations, IT and Services department and Rheinland-Pfalz Bank. We approved the amended plan for the allocation of the Board of Managing Directors' responsibilities.

At our meeting on 6 October 2014 apart from current reporting we again discussed the efficiency check of the Supervisory Board and took note of the reports on subsidiaries SüdLeasing and SüdFactoring as well as on Sachsen Bank. We also took note of the report on the compensation structure for the 2013 financial year and the report by the Compensation Officer and deliberated on various legal topics.

At the last meeting of the calendar year, on 15 December 2014, we dealt, among other things, with the efficiency check and evaluation of the Board of Managing Directors and Supervisory Board as well as working out targets to promote representation of the underrepresented gender in the Supervisory Board and drawing up a strategy to meet these targets. We discussed the business strategy including IT strategy while our discussions focused on the 2015 business plan and medium-term planning from 2016 to 2019. We also discussed personnel strategy and reviewed management's principles for selecting and appointing people to higher managerial positions. In addition we dealt with changes in the corporate bodies and discussed various legal topics.

Outside the meetings we passed written resolutions in five exceptional cases. On 30 January 2014 we passed a resolution to sell LBBW Bank CZ and to issue a letter of comfort. On 13 March 2014 we approved the issue of further letters of comfort and conclusion of a trustee agreement. On 20 March 2014 we approved the Supervisory Board's report and the Corporate Governance report, including the remuneration report, in each case for the 2013 Annual Report, and on 28 April 2014 we appointed the Deputy Chairman of the Supervisory Board of Landesbank Baden-Württemberg for the remaining period of office of the Supervisory Board.

Supervisory Board committees – adjustments to the structure of supervisory bodies to satisfy the requirements of CRD IV.

Adjustments were already made to the structure of the Supervisory Board's committees last year, ahead of the amendments to the German Banking Act taking effect from 1 January 2014.

The Supervisory Board has established a total of four committees from among its number. In addition to the existing Risk, Audit and Executive Committees, with the latter assuming the statutory duties of the Nomination Committee from 1 January 2014, the Supervisory Board established the Compensation Control Committee also required under the amended German Banking Act at its meeting on 16 December 2013. The current membership of the committees is printed on page 17 of this Annual Report.

The Executive Committee met six times in the period under review. Its consultations dealt with the preparation of the meetings of the full Supervisory Board, especially personnel matters and legal issues as well as strategic matters such as the progress of restructuring at LBBW. Furthermore, the Executive Committee dealt with the efficiency check and evaluation of the 2014 Board of Managing Directors and Supervisory Board in accordance with the German Banking Act. In addition, decisions were made in areas lying within the core remit of the Executive Committee.

The Compensation Control Committee fulfilled its statutory responsibilities in a total of five meetings. In particular it reviewed LBBW's compensation systems according to the Remuneration Ordinance for Institutions (Institutsvergütungsverordnung). In this connection the committee maintained close contact with the Compensation Officer at all times. It also took note of the design of the compensation system for risk takers and the status of the restructuring of the compensation system for non-risk takers and reporting by the Compensation Officer. Furthermore, it deliberated on questions relating to the compensation of the Board of Managing Directors.

The Audit Committee held a total of four meetings in 2014. In the presence of the statutory auditor KPMG, it discussed the annual financial statements and the consolidated financial statements of LBBW as well as the audit reports. It obtained the auditor's declaration of independence and, in accordance with the resolution passed at the annual general meeting, placed the audit mandate with the statutory auditor KPMG. The Audit Committee agreed on the main points of the audit and the fee with the statutory auditor. 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 for the provision of project-related services outside the scope of the statutory audit. The Audit Committee received regular reports on the current status and results of the audit of annual financial statements. 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 oversaw the main activities of the Internal Auditing department and its material and staffing resources. Representatives of the Bank's Compliance and Internal Auditing departments reported to the Committee regularly on matters of current relevance. In particular, the Audit Committee took note of the reports from the Regulatory and Accounting Committee, the report on the efficacy of the risk management system, the final report on the reorganization of the Auditing unit, the annual report by the AML Officer and the annual report on the design of the internal control system and the compliance report. Furthermore, the Audit Committee was kept informed of the progress of special audits and complaints by the regulatory authorities and deliberated on the long-term mandating of the auditor. The representatives of the statutory auditor reported on their auditing activities, among other things.

In a total of ten meetings, the Risk Committee held in-depth discussions on the Bank's risk situation and risk management as well as its exposure for which a duty of presentation exists in accordance with the law, the articles of association and the bylaws, granting its approval where this was required in individual cases. Specifically, the Committee dealt with the Bank's credit, market-price, liquidity, equity-investment, legal, reputation and operational risks, which together with calculations of the Bank's risk-bearing capacity formed part of the regular risk reports of the Board of Managing Directors. Over and above this, the Committee confirmed that the incentives set by the compensation system takes account of the risk, capital and liquidity structure of the Landesbank as well as of the probability and due dates of earnings. The Risk Committee discussed the business strategy and, based on this, the uniform Group, market price and liquidity risk strategy and operational risk strategy in 2015 with the Board of Managing Directors. Various portfolios were examined in detail in the light of economic or regulatory developments. This also included regular reporting on the progress made in winding down LBBW's credit investment portfolio.

The members of the Supervisory Board were kept regularly informed of the work of the committees and the resolutions which they passed via the reports submitted by the respective chairpersons of the committees.

All members of the Supervisory Board attended the meetings of the Supervisory Board and the committees in 2014, with only a few exceptions (average attendance 94%).

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 from external specialists in a total of three sessions. These sessions dealt with the topics of »Loan loss provisions at banks in accounting and regulatory law« as well as »Committees, combining official positions and selected other legal innovations«. As well as this, in the »Regulatory Agenda 2015« session a preview was given of upcoming regulatory, accounting and legal issues relevant in 2015.

Annual and consolidated financial statements.

The statutory auditor KPMG audited the annual financial statements and the consolidated financial statements of LBBW for 2014 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 meetings of the Audit Committee and the Supervisory Board, elaborated on the main results of the audit and was available to answer any questions. At its balance sheet meeting on 20 March 2015 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 26 March 2015, 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 made against the annual and consolidated financial statements. The Supervisory Board adopted the annual financial statements drawn up as of 31 December 2014 and approved the consolidated financial statements for 2014.

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.

There were various changes within the Supervisory Board and the Board of Managing Directors of LBBW.

Succeeding Professor Dr. Dieter Hundt, Chairman of the Supervisory Board of Allgaier Werke GmbH, who left the decision-making bodies of LBBW on 9 May 2014, Dr. Jutta Stuible-Treder, shareholder-managing director of EversheimStuible Treuberater GmbH, was appointed to the Supervisory Board effective 9 May 2014.

On 16 May 2014 the Supervisory Board revoked the leave of absence of Mr. Michael Horn, who since then has again been actively carrying out his responsibilities as Deputy Chairman of the LBBW Board of Managing Directors. In doing so the Supervisory Board reacted to the final suspension of the legal proceedings at the District Court of Stuttgart. On 26 November 2013 the Supervisory Board had temporarily given Mr. Horn leave of absence from his position at his own request in order to protect the Bank from possible harm. At the same time the Supervisory Board decided to extend the appointment of Mr. Horn, ending in summer 2014, for a further period of office of five years.

Alexander Freiherr von Uslar-Gleichen, whom we had appointed as a new member of the Board of Managing Directors at our meeting on 16 December 2013, took up office on 1 October 2014.

In connection with Alexander Freiherr von Uslar-Gleichen's joining the Board of Managing Directors of LBBW there were some changes in the allocation of responsibilities within the Board. Mr. von Uslar took over the Finance/Controlling business unit from the former Chief Financial Officer, Mr. Ingo Mandt, on 1 December 2014. On 1 December Mr. Mandt took charge of Financial Markets, which had previously been headed by Mr. Vetter. Furthermore, International Business, which had previously been part of Mr. Michael Horn's business unit, was incorporated in Financial Markets. Mr. Horn remains responsible for representative offices and German Centers.

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 hard work – also against the backdrop of ever greater regulatory challenges – in the 2014 financial year.

For the Supervisory Board

HANS WAGENER
Chairman

Supervisory Board of LBBW.

Chairman.

HANS WAGENER
Auditor, tax consultant

Deputy Chairman.

DR. NILS SCHMID MDL
Deputy Minister-President,
Minister of Finance and Economics of the State of Baden-Württemberg

Members.

HANS BAUER
Employee Representative of Landesbank Baden-Württemberg

CARSTEN CLAUS
Chairman of the Board of Managing Directors
of Kreissparkasse Böblingen

HARALD COBLENZ
Employee Representative of Landesbank Baden-Württemberg

WOLFGANG DIETZ
Lord Mayor of the town
of Weil am Rhein

WALTER FRÖSCHLE
Employee Representative of Landesbank Baden-Württemberg

HELMUT HIMMELSBACH
Retired Lord Mayor

PROF. DR. SC. TECHN. DIETER HUNDT
until 9 May 2014
Chairman of the Supervisory Board of Allgaier Werke GmbH

JENS JUNGBAUER
Employee Representative of Landesbank Baden-Württemberg

BETTINA KIES-HARTMANN
Employee Representative of Landesbank Baden-Württemberg

FRITZ KUHN
Lord Mayor of the State Capital Stuttgart

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

GÜNTHER NOLLERT
Employee Representative of Landesbank Baden-Württemberg

DR. FRITZ OESTERLE
Attorney at law, law firm Oesterle

MARTIN PETERS
Managing Partner of the Eberspacher Group

NORBERT H. QUACK
Attorney at law, notary, law firm Quack Gutterer & Partner

CLAUS SCHMIEDEL MDL
Chairman of the SPD Parliamentary Group in the State Parliament of Baden-Württemberg

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

DR.-ING. HANS-JOCHEM STEIM
Chairman of the Supervisory Board of Hugo Kern und Liebers GmbH & Co. KG

DR. JUTTA STUIBLE-TREDER
from 9 May 2014
Managing Partner of EversheimStuible Treuberater GmbH

NORBERT ZIPF
Employee Representative of Landesbank Baden-Württemberg

Executive Committee of LBBW.

Chairman.

HANS WAGENER
Auditor, tax consultant

Deputy Chairman.

DR. NILS SCHMID MDL
Deputy Minister-President,
Minister of Finance and Economics of the State of Baden-Württemberg

Members.

FRITZ KUHN
Lord Mayor of the State Capital Stuttgart

PETER SCHNEIDER
President of the Sparkassenverband Baden-Württemberg (the 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.

HELMUT HIMMELSBACH
Retired Lord Mayor

GÜNTHER NOLLERT
Employee Representative of Landesbank Baden-Württemberg

DR. FRITZ OESTERLE
until 16 May 2014
Attorney at law, law firm Oesterle

NORBERT H. QUACK
Attorney at law, notary, law firm Quack Gutterer & Partner

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

DR.-ING. HANS-JOCHEM STEIM
Chairman of the Supervisory Board of Hugo Kern und Liebers GmbH & Co. KG

DR. JUTTA STUIBLE-TREDER
from 16 May 2014
Managing Partner of EversheimStuible Treuberater GmbH

Guest.

HANS WAGENER
Auditor, tax consultant

Risk Committee of LBBW.

Chairman.

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

Deputy Chairman.

HANS WAGENER
Auditor, tax consultant

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
from 16 May 2014
Attorney at law, law firm Oesterle

PROF. DR. SC. TECHN. DIETER HUNDT
until 9 May 2014
Chairman of the Supervisory Board of Allgaier Werke GmbH

NORBERT H. QUACK
Attorney at law, notary, law firm Quack, Gutterer und Partner

CLAUS SCHMIEDEL MDL
Chairman of the SPD Parliamentary Group in the State Parliament of Baden-Württemberg

Compensation Control Committee of LBBW.

Chairman.

HANS WAGENER
Auditor, tax consultant

Deputy Chairman.

DR. NILS SCHMID MDL
Deputy Minister-President,
Minister of Finance and Economics of the State of Baden-Württemberg

Members.

FRITZ KUHN
Lord Mayor of the State Capital Stuttgart

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

NORBERT ZIPF
Employee Representative of Landesbank Baden-Württemberg

Corporate governance at LBBW.

LBBW takes account of key 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 toward listed joint-stock companies, not all points of it are applicable to Landesbank Baden-Württemberg, since LBBW is not a listed bank but an institution incorporated under public law. Several provisions of the German Corporate Governance Code can therefore 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.

At LBBW – in particular in connection with the change in its governance structure in 2010 – management and supervisory rules applicable to corporations are practiced while at the same time it is ensured that independent expertise is drawn on. Although LBBW has the legal form of an institution under public law, its corporate governance is the same as that of a private company. 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. Furthermore, the members of the LBBW Board of Managing Directors make their decisions independently of any external instructions.

In the wake of the agreements achieved the EU Commission on LBBW's governance structure, among other things, the independence of the Chairman of the Supervisory Board beyond his current term of office was guaranteed, as stipulated in the ruling of 15 December 2009. Furthermore, the number of independent members of the Supervisory Board will be increased from the current seven to a total of eight in future – including the Chairman of the Supervisory Board – at the beginning of the next period of office. LBBW will be reporting on the observance of these requirements up to and including 2020. Accordingly, the percentage of independent members of the Supervisory Board of LBBW is now more than one third of the total number of members.

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.

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.

As of the beginning of January 2013, the owners of Landesbank Baden-Württemberg are as follows:

- 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,
- Landesbeteiligungen Baden-Württemberg GmbH (Landesbeteiligungen BW) with a 13.539374% stake in the share capital and
- Landeskreditbank Baden-Württemberg – Förderbank – (L-Bank) with a stake of 2.006365 % 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 further makes decisions about the articles of association and any changes thereto, and about key business measures, such as corporate agreements, setting and changes to the share capital, the issue of profit participation rights and granting of silent partnership 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 with 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 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.

According to LBBW's understanding, supplying the Supervisory Board with sufficient information is the joint task of the Board of Managing Directors and the Supervisory Board. 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 variations in the business development from the plans and targets drawn up and gives reasons for such variations.

The Supervisory Board decides the duties of disclosure and reporting requirements of the Board of Managing Directors. 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, and this between the individual meeting dates as well.

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 shall be 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 will be 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 this 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 and therefore particularly a reasonable proportion of women.

To ensure the maximum in terms of 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.

The members of the Board of Managing Directors at LBBW are bound by a comprehensive non-competition clause during their activity for LBBW. Board members and employees may also not demand or accept any gifts or other benefits from third parties for themselves or for others or grant third parties unfair advantages.

Members of the Board of Managing Directors are obliged to act in the interests of the Bank. No member of the Board may pursue personal interests when making their decisions and exploit business opportunities open to the Bank for their own ends. 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 apply accordingly for 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 compensation 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.

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 Compensation 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 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 and the required independence of the auditor, and agrees to the auditor's fee, in addition to issuing the audit assignment to the auditor, which allows it to determine the focus of the audit. 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 independent and is not a former member of LBBW's Board of Managing Directors.

Members of the Supervisory Board.

To ensure that all owners are adequately represented within the new executive bodies of LBBW, the owners had the right to delegate members for the first Supervisory Board, provided they were not to be elected as Supervisory Board members for the employees. The number of members in the Supervisory Board delegated by the owners reflects their participating interest. The federal state, association and city agreed unanimously on the appointment of the Chairman of the Supervisory Board. Taking this into account, LBBW strives for diversity in the composition of the Supervisory Board and for a reasonable proportion of women.

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. Three specialist seminars were organized in 2014 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 fewer than half of the meetings of the Supervisory Board, a note to that effect is included in the Supervisory Board's report.

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 apply to the members of the Supervisory Board accordingly in this regard.

The Supervisory Board also provides information at the annual general meeting about any conflicts of interest that may have arisen and how they were handled. 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 treats its owners equally in terms of information.

Information that LBBW has to publish outside Germany because of the applicable capital market legislation is released immediately on the domestic market.

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 primarily provided with information 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).

LBBW publishes a list of third-party companies in which it holds an equity investment of not insignificant importance to the Company in its annual report. This does not include any trading portfolios of credit and financial service institutions through which no voting rights are exercised.

In its consolidated financial statements LBBW explains the relationships with representatives of the owners who are to be 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 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, provided that they are not rectified immediately.

The Supervisory Board also agreed 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, and fixes the remuneration payable to them. The Compensation Control Committee assumes an important advisory role in this respect and prepares the resolutions of the Supervisory Board.

Principles of the remuneration system.

The focus of the system is on gearing remuneration to the attainment of sustained business success without offering incentives to take disproportionately high risks. For this reason, the Supervisory Board has, among other things, set a measurement period of three years for variable remuneration and a ratio of 1:1 as a reasonable upper limit for the ratio of fixed to variable remuneration.

The remuneration parameters that determine variable remuneration are geared toward achieving the targets derived from the Bank's strategy on a sustained basis. The parameters are the Group's overall success and the individual Board members' contribution to profit, which are measured and assessed with the help of qualitative and quantitative factors. Contributions to profit can be positive or negative and accordingly have an impact on variable remuneration. 60% of the variable annual remuneration is deferred for a period of four years and paid out on a time-proportionate basis. This may be reduced within this period or even lapse (malus). 50% of this deferred remuneration is based on sustained performance.

Pension entitlement is always structured as defined contribution. An arrangement based on the final salary applies in the case of some of the members of the Board of Managing Directors, the amount of which is calculated according to the length of their service on the Board of Managing Directors.

The Supervisory Board regularly reviews the appropriateness of the Board remuneration model as well as the level and composition of the Board remuneration.

Remuneration 2014.

In 2014, remuneration of the members of LBBW's Board of Managing Directors consisted of fixed, non-performance-based remuneration, variable performance-based remuneration and other benefits (essentially the use of a company car with driver). Moreover, the members of the Board of Managing Directors are eligible for inclusion in a company pension scheme.

In 2014, the members of the Board of Managing Directors received fixed remuneration of a total of EUR 4.88 million for the performance of their duties on the Board. In addition, variable remuneration totaling EUR 1.13 million was paid out. The sum total of other benefits came to EUR 0.12 million.

As at 31 December 2014, pension obligations according to IFRS for serving Board members as at the balance sheet date totaled EUR 14.19 million.

Supervisory Board.

Principles of remuneration for Supervisory Board members.

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

- The members of the Supervisory Board receive a fixed remuneration of EUR 25,000 for the respective financial year. The Chairman of the Supervisory Board receives twice and the Deputy Chairman 1.5 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 2014.

For the 2014 financial year, a total of EUR 0.94 million was paid in salaries and EUR 0.05 million in attendance allowances to the members of the Supervisory Board.

Other information.

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 Board of Managing Directors

The Supervisory Board

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 or insider trading. At the same time, compliance with data protection laws and financial sanctions is monitored.

In addition, LBBW has established an internal control system (ICS) Center to support the divisions in their operational responsibility for the controls implemented in the business processes. The ICS Center defines the structures for a monitoring process; it is the main contact responsible for issuing organizational instructions (e.g. scheduling of control tests as well as reporting paths and formats) and the central instance for ensuring compliance with defined quality standards in the process steps performed (e.g. risk analysis, control monitoring).

Capital markets compliance.

One key focus of capital markets compliance in 2014 was on providing support and advice to the functional departments with regard to implementing new regulatory requirements, such as the extended disclosure obligations for disclosing internal commissions and implementing the new requirements for systems and checks for algorithm trading. Furthermore, a preliminary study was conducted on the European Markets in Financial Instruments Directive MiFID II/MiFIR with the aim of carrying out an initial impact analysis. Here the focus is on issues relating to investor protection and increased market transparency.

The training offered on capital markets compliance, consisting of obligatory training on conduct obligations in the securities and capital markets environment, was extended to include a training program geared to specific target groups. This focused, among other things, on new members of staff, apprentices and trainees.

The supervision of securities transactions was further extended in the form of a new capital markets compliance IT system. In addition to the previous key activities, monitoring the ban on market manipulation was refined with regard to compliance with the statutory requirements. The local branches were still continuously monitored.

Anti-money laundering.

In 2014 the Group-wide implementation of parameters relating to anti-money laundering legislation dominated in the branches and Group subsidiaries. As a consequence of the tighter rules on voluntary reports of tax evasion by the taxpayer effective as of 2015, in 2014 there were also more cases requiring the evaluation of flowbacks of funds from outside Germany. Moreover, the safeguards in place for dealing with reliable third parties to meet due diligence requirements in anti-money laundering legislation were tightened up. All employees involved in customer due diligence and internal safeguards in terms of antimony laundering legislation continued to be informed about obligations and methods of preventing money laundering.

Financial sanctions/embargoes.

As a result of further work on the written policies and system adjustments, it has been possible to additionally raise the level of standardization in the handling of financial sanctions and embargo checks in the LBBW Group. LBBW checks its customers against national and international sanction lists on a daily basis. Similarly, all foreign transactions are reviewed. The Financial Sanctions/Embargoes unit within LBBW's Compliance division advises the divisions on matters pertaining to foreign trade law and monitors the observance of national and international sanction requirements. As in earlier years, this constituted the main thrust of the activities performed in 2014.

Prevention of fraud/other criminal offences.

The main focus concerned systematic efforts to further develop preventive and supervisory measures relating to other criminal offences. Parameters such as the setting up of a reporting system for whistleblowing were communicated Group-wide in the branches and subsidiaries and their implementation supported. A new guideline for the Bank regulates measures against other criminal offences and in particular corruption. Furthermore, stricter parameters were created concerning the fit and proper tests of employees and the technical monitoring of transactions and business relationships to detect fraud patterns was further extended. The extended training and heightened awareness of staff is gratifyingly reflected in the increased number of suspicious activity reports and a better rate of loss prevention.

Compliance according to MaRisk.

At the end of 2012 the Federal Financial Supervisory Authority (BaFin) published the 4th amendment of the Minimum Requirements for Risk Management (MaRisk). One major innovation included in this amendment is the requirement that a Compliance Function be set up pursuant 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 to reduce compliance risks. With this in mind, 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 various procedures.

The Compliance Function pursuant to MaRisk as the »second line of defense« accordingly monitors the organizational implementation of the rules and parameters to be complied with by the bank.

Data protection.

The rules for data protection were adapted with regard to the processes in connection with IT outsourcing, the need to create deletion concepts for personal data and the duty to draw up data protection concepts for reporting.

The number of consultations in the specialist departments and replies to inquiries from customers (complaints and requests for information) remains at a high level. This applies also to data breaches detected within the Bank, which have to be checked by Data Protection and possibly reported externally.

The creation of a report for savings banks, which are customers of the Bank within the framework of its central bank function, as well as the regular audit of service provider Finanz Informatik by auditors were more closely monitored.

Checks and audits were conducted within LBBW and in disposal companies and the findings addressed. A new element included in the training concept comprised training courses for trainees as part of an induction week.

Combined management report.

The following information should be read in conjunction with the consolidated financial statements and associated notes. The 2014 consolidated financial statements and the 2014 combined management report were issued an unqualified auditor's report by KPMG Aktiengesellschaft Wirtschaftsprüfungs-gesellschaft.

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 will be 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 and L-Bank.

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 the economic regions bordering these, with dependent institutions using each institution's own brand:

- In Baden-Württemberg and Bavaria, the Baden-Württembergische Bank (BW-Bank) takes on this function. The areas of business are private and corporate customer business. The BW-Bank assumes the role of a municipal savings bank within the state capital, Stuttgart.
- LBBW Rheinland-Pfalz Bank focuses on business with SMEs in Rhineland-Palatinate and neighboring regions.
- LBBW bundles its small and medium-sized corporate customer and private customer business in Saxony and the neighboring regions under the umbrella of LBBW Sachsen Bank.

In order to really emphasize that the two dependent institutions in Rhineland-Palatinate and Saxony are part of LBBW, their brand logo and language usage were changed as of 1 January 2015 and are now preceded by the word LBBW.

LBBW (Bank) offers the entire range of products and services of a modern universal bank at roughly 200 branches and locations across Germany. The business with large corporates operating across Germany and internationally, real estate financing, capital markets business 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).

LBBW (Bank) also supports the corporate customers of LBBW and of the savings banks with their international activities. A global network of branches and representative offices is in place to support customers with country expertise, market knowledge and financial solutions. To complement this, LBBW has German Centers in Beijing, Singapore, Mexico City, Delhi.Gurgaon and Moscow that advise German corporate customers on their market entry and make local offices and networks available to them.

The range of services and products offered by LBBW (Bank) within the Group is enhanced by subsidiaries specializing in specific business areas, such as leasing, factoring, asset management, real estate and equity finance.

Business model of the LBBW Group.

LBBW's business model rests on five pillars with a clear focus on customer business.

The business model at LBBW is based on the five pillars of corporate customers, private customers, the savings bank business, real estate financing and financial markets; these are geared toward the major customer groups. LBBW's strategy consistently focuses on customer business. The core markets are, in particular, Baden-Württemberg, Rhineland-Palatinate, Saxony and the neighboring areas. 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 efficient real estate financing and capital market products, which are also targeted at institutional customers.

Corporate customers.

The corporate customer business focuses on small and medium-sized companies in the core markets mentioned above as well as in the neighboring economic areas. Of these neighboring regions, North Rhine-Westphalia and Bavaria are especially important; the greater Hamburg area will also play a role in the future. LBBW (Bank) sees itself as a primary bank to SMEs, offering long-term, sustained support to its customers on all matters concerning financial services and the related strategic issues.

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

In addition, LBBW (Bank) supports select large corporates in Germany, Austria and Switzerland. It also offers support to customers internationally in important and emerging economic regions worldwide. The corporate customer business also includes business with municipalities. This is primarily concentrated on Baden-Württemberg.

Various subsidiaries such as SüdLeasing, MKB°Mittelrheinische Bank/MMV°Leasing, SüdFactoring and Süd Beteiligungen provide specialist products and services.

Private customers.

In the private customer business, LBBW's business model is tailored to the upmarket customer segment in Baden-Württemberg, Rhineland-Palatinate and Saxony as well as the neighboring economic regions. Wealth Management supports high-net-worth customers and those with complex asset structures.

The BW-Bank also operates as a savings bank for the state capital Stuttgart. The Bank offers its full range of services to all groups of customers, thereby providing citizens with the full array of banking services.

In addition to bespoke advice aimed at creating long-term customer relationships, first-class products and services are at the core of the business philosophy. The comprehensive offering of products and services ranges from classic checking accounts and credit card business to individual securities and pension-savings products.

Savings banks.

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

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 are offered for resale to the savings banks' own retail and corporate customers, in addition to joint loan extension.
- The services business includes research, securities clearing and management, international payment transactions, documentary payments etc.

Real estate financing.

The real estate financing pillar is geared toward private and institutional investors, real estate companies, project developers, open and closed-end funds, privatization agencies, real estate investment trusts (REITs) and housing companies.

New business in commercial real estate financing concentrates on the defined core markets of Germany, the United States and the United Kingdom, particularly in the residential, office, retail and logistics real estate segments.

In addition, this year the Bank began offering financing for special assets governed by statutory regulations in Germany (German open-ended funds and special funds) in all regional markets and for all types of use.

The subsidiary LBBW Immobilien Management GmbH additionally provides real estate development, real estate asset management and real estate services with a focus on Baden-Württemberg and Rhineland-Palatinate, the Rhine-Main region, Munich and Berlin. In addition, it performs real estate services within the Group.

Financial markets.

The financial markets segment supports companies, savings banks, banks, private customers and institutional customers. Institutional investors include, for example, pension funds, insurance companies, asset managers, local municipalities,, foundations and churches.

Its activities concentrate on German-speaking regions. The Bank supports its international customers chiefly on the money and foreign currency markets and with all matters concerning the issuing business.

Financial markets business also includes trading activities in the capital market. LBBW (Bank) particularly offers its customers solutions for managing interest-rate, currency and commodity risks as well as for raising and investing short-term and long-term cash in the capital markets.

LBBW (Bank) additionally offers its customers support in optimizing their balance sheet structures and asset/liability management as well as the savings banks' proprietary business, i.e. interest rate and credit products.

The subsidiary LBBW Asset Management Investmentgesellschaft mbH complements the product range of LBBW (Bank) in capital markets business. It primarily focuses on consulting for and management of security trust assets for institutional and private investors.

Credit investment.

The credit investment business pools the credit substitute business of LBBW, former Sachsen LB and former Landesbank Rheinland-Pfalz, which is being run down. This particularly includes bonds, structured securitizations and credit derivatives. The securitization portfolio guaranteed by the owners – the State of Baden-Württemberg, Sparkassenverband Baden-Württemberg (Savings Bank Association of Baden-Württemberg) and the state capital Stuttgart – was sold in full in August 2014.

Segment allocation and coordination.

In LBBW's segment reporting, the two pillars of **corporate customers** and **real estate financing** are assigned to the **Corporates** segment, while **private customer** and **savings bank business** forms part of the **Retail/Savings** Banks segment. The **Financial Markets** segment is identical to the pillar described here. 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 due consideration 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)
- risk weighted assets (in accordance with CRR/CRD IV after full implementation)
- consolidated total assets (IFRS)
- net 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 operating income/expenses (after allowances for losses) excluding allowances for losses on loans and advances and net gains/losses from financial investments, net income/expenses from investments accounted for using the equity method and from profit/loss transfer agreements)

Furthermore, since the start of 2015 the following financial performance indicators have increasingly gained in importance as steering instruments for the bank as a whole:

- total capital ratio (in accordance with CRR/CRD IV after full implementation)
- leverage ratio (in accordance with CRR/CRD IV after full implementation)
- utilization of the aggregate risk cover (Bank's own calculation pursuant to MaRisk)

Social responsibility.

Employees.

Efficient and dedicated employees are central to the success of every company. LBBW invests in the health of its workforce, providing support in the form of targeted personnel development and offering extensive solutions for achieving a highly favorable work-life balance.

Employee numbers.

	LBBW (Bank)		LBBW	
	2014	2013	2014	2013
Employees	9,292	9,124	11,117	11,308
Proportion of women	52.3%	52.7%	52.6%	53.1%
Proportion of men	47.7%	47.3%	47.4%	46.9%
Part-time employees	25.6%	25.0%	24.2%	23.3%
Full-time employees	74.4%	75.0%	75.8%	76.7%
Trainees (including students at universities of cooperative education)	442	458	462	479
Proportion of trainees	4.8%	5.0%	4.2%	4.2%

As at 31 December 2014, the number of employees at LBBW dropped from 11,308 to 11,117. The decline was mainly a result of direct and indirect effects arising from the concluded restructuring, in particular from the sale of LBBW Bank CZ. There were also changes in the scope of consolidation under IFRS (German Centers in Singapore and Mexico, Flantier Properties Limited and LBBW Mexico SoFOM). These changes prompted the addition of 40 employees at LBBW. The staff fluctuation rate based on the Confederation of German Employers' Association's (BDA) formula stood at 3.4% for LBBW (Bank) in 2014, down from 4.0% in the previous year. Adjusted for restructuring-related early retirement and severance agreements (1.0%), the rate came to 2.4% at LBBW (Bank), which is slightly above the previous year's level (2013: 2.0%).

At 42.8 years, the average age of employees at LBBW (Bank) in the year under review increased slightly over the previous year (2013: 42.5 years). The average length of service came to 16.9 years, a slight rise for the Bank (2013: 16.6 years). Once again, women held a small majority over men at LBBW, accounting for 52.6% (previous year 53.1%) of total staff numbers in 2014. The proportion of part-time employment contracts, including reduced working hours due to partial retirement, rose slightly in at LBBW from 23.3% to 24.2% in 2014.

In 2014, the main focus of the personnel development activities accompanying LBBW's realignment as a customer-driven bank entailed measures aimed at qualifying and preparing employees for an increasingly competitive environment. The internal job market also played an important role in carrying out LBBW's strategic realignment. Proof of the excellent success in intensifying the internal job market and of the willingness of employees to pursue fresh professional challenges within LBBW can be seen in the roughly 1,080 vacancy notices, nearly all of which were filled by means of internal transfers, re-entry to the workforce following family leave and the permanent employment of apprentices.

The efforts taken in the last few years and investments made in the full realignment of employer and human resources marketing also made the Bank a much more attractive employer in 2014. The Bank has attracted greater interest in the jobs, internships and apprenticeship positions it offers across all target groups, from students and graduates to qualified employees and managers. The number of applications received from secondary school students in 2014 for example rose by more than 14 % over the previous year.

LBBW also contributed substantially to providing young people with professional qualifications in 2014. In August 2014, 185 trainees and students from universities of cooperative education took on roles at LBBW. At year-end, the Bank employed a total of 462 (previous year: 479) trainees and students from universities of cooperative education. At 4.2 %, the proportion of trainees was unchanged over the previous year, testifying to LBBW's sustained commitment to developing the expertise of its future staff, the quality of which is acknowledged and praised by external bodies.

Personnel development.

Despite the greatest possible cost awareness, LBBW (Bank) maintained spending on staff qualifications and training at the previous year's level. Managers and employees were able to select specific training courses from a wide range of seminars for professional and personal development. This is supplemented by foreign-language courses, tuition on specific subjects by external seminar organizers and courses in business administration. In the corporate customer business, the focus was on workshops on how to »conduct high-quality advisory talks«. Employees of the »private customer and private banking« business received certification in high-quality consulting of sales employees.

In order to ensure that change processes within LBBW are managed successfully, a total of 277 workshops on change management processes and workshops resulting from the employee survey at the end of 2013 were held in 2014. A total of 3,638 employees (managers with their teams) participated. 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.

Work-life balance.

Against the backdrop of demographic changes, working conditions that facilitate an acceptable work-life balance are extremely important to foster the potential of the Bank’s workforce to optimum effect for the mutual benefit of both sides. LBBW (Bank) provides its employees with extensive assistance in this respect. For example, Bank employees can utilize childcare services at all head offices. Depending on requirements, custom-fit solutions are available, for example children's day care services, emergency childcare and special arrangements during the school holidays. The strong demand for these services and very positive response from employees prompted the Bank to add another 13 children's daycare places in the period under review, bringing the total to 70 places.

LBBW also offers its employees a working-hour framework that gives them a great deal of flexibility. In addition to a wide range of different working-hour models, there are various part-time options as well as scope for taking extended leave of absence thanks to working-time accounts. These offers are additionally supplemented with the general possibility of working from home. In connection with this, managers have been more involved in tapping employees' potential during parental leave since 2014. HR managers in Personnel regularly discuss their return with the respective managers based on the corresponding data of personnel controlling.

Greater allowance has also been made for an improvement in the balance between work and life in connection with care for family members. More than 200 employees attended a seminar dealing with the topic of work and care in the period under review. Moreover, LBBW helped establish emergency care for relatives needing support via the »Mainzelmäuse« parent initiative in Mainz. The strong demand on the part of employees shows how important the issue of care is to them. LBBW is also committed to helping employees in this particular phase of their lives. Accordingly, LBBW (Bank) employees may apply for an additional six months of leave of absence on top of the care period in accordance with the Care Leave Act. In addition, it is possible to apply for leave of absence each year for up to ten days to care for family members. The Bank pays the employee's salary on a voluntary basis during this period.

Company health management.

Investment in company health management is a strategic success factor for LBBW (Bank). It seeks to evaluate and, as far as possible, optimize all material factors in the Bank impacting health, e.g. 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 not only functional and efficient, but also as friendly to employee health 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 the respect that employees perceive, the scope which they have in 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 all these aspects, they undergo compulsory and systematic training in »health-oriented management« training at LBBW (Bank). An advanced workshop on this topic was added to the corresponding training sessions on offer in 2014.

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, some of which are organized in conjunction with fitness studios; advice on preventive healthcare (»healthcare analysis«) and on strengthening resilience is also offered. 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 support measures to all employees at locations with a large workforce. In 2014, the Bank began offering support to those at decentralized locations for healthcare measures performed by qualified external professionals.

Social responsibility towards staff forms a key element of the corporate culture at LBBW (Bank). In line with this, it aids employees with problems and stress resulting from both private and work-related matters. The social affairs office also provides advice to employees and managers on mental health, problems at the workplace, addiction and personal matters. It also offers help in times of acute crisis, such as after a bank robbery or other stressful events.

The quality of health management at LBBW (Bank) was once again confirmed in 2014 by the »Excellence Status« in the »Corporate Health Award« in a Germany-wide comparison of companies by Handelsblatt, TÜV SÜD and EuPD Research.

Remuneration report.

In accordance with the provisions of Section 16 of the Remuneration Ordinance for Institutions (InstitutsVergV) of 16 December 2013, LBBW (Bank) will be preparing a remuneration report for 2014, which it expects to publish at www.LBBW.de in the third quarter of 2015.

LBBW improvement process.

As an idea management model devised by the Group, the LBBW improvement process is a resource aimed at promoting innovation, motivating employees and reducing costs in equal measure.

The markets are increasingly demanding improvements to products, processes and services. The LBBW improvement process promotes the ability to adapt and the flexibility of employees necessary to do so. Various methods are used here to incorporate employees' ideas systematically, thus allowing them to contribute steadily to the enhancement of the landscape of products and processes. This continual optimization, as also demanded by the quality management systems, is supported via the LBBW improvement process.

The specific design of the improvement process is responsible for the very good progress made. The extremely positive performance in 2014 provides evidence of this. The number of improvement proposals made by employees in 2014 continued to rise further, by 3% to 3,921. The benefit that these brought was nearly doubled from EUR 9.1 million in 2013 to EUR 18 million in the year under review. This increase is attributable to both outstanding individual improvements and the fact that process optimizations based on employee proposals are being used more and more. As had already been seen several times in years prior, the LBBW improvement process was awarded as the most successful idea management system in the industry.

It will also continue to be used in 2015 to promote the knowledge and ideas of all Bank employees in improving productivity, meeting the needs of customers and adhering to regulatory requirements.

Sustainability.

The commitment of LBBW to sustainability is anchored in both its business strategy and its business. Sustainability policies and goals, the climate strategy and specific guidelines provide a binding framework for responsible activity on the part of each individual, thus creating the basis for systematically sustainable corporate governance in all business segments.

Sustainability strategy and management.

LBBW's sustainability policy consolidates LBBW's guiding principles on sustainable development in the areas of corporate governance, business operations, human resources, communication, and LBBW's commitment as a corporate citizen. It thus defines the framework for all sustainability activities within LBBW and forms the basis for integrating economic, ecological and social aspects in overall corporate activity.

LBBW has set itself appropriate goals in the definition of its sustainability policy. These are implemented on the basis of the »Sustainability Guidelines« (see below). In addition, the LBBW climate strategy describes the Bank's position on key climate-related issues.

The standards defined 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 and LBBW Asset Management Investmentgesellschaft mbH, all of which are based in Stuttgart.

LBBW's commitment to sustainability is described at length at http://www.lbbw.de/sustainability. The 2015 sustainability report containing the figures as at 31 December 2014 is expected to be published in November.

Sustainability Guidelines.

The Sustainability Guidelines define the corridor within which LBBW pursues its sustainability goals in investment and lending business, in human resources policy and in the stewardship of resources, and therefore form the foundation for sustainable development.

Sustainability Guidelines in investment business.

LBBW takes account of sustainability-related factors in its investment business. In this connection, it follows the United Nations Principles for Responsible Investment.

LBBW offers private and institutional investors a broad range of sustainable investment products; asset-management customers are able to invest in accordance with their ethical principles.

Sustainability Guidelines in lending business.

Identifying, avoiding, and managing risks that could arise from financing transactions are key elements in making lending decisions. Analyzing non-monetary risks, such as reputation risks, through an environmental or social lens is becoming increasingly important.

We make a concerted effort to finance projects that support sustainable development as well as hold business opportunities for LBBW. Moreover, financing for investments in water treatment and supply and in energy infrastructure, e.g. electrical grids and storage, will become increasingly important.

Sustainability Guidelines in relations with personnel.

LBBW is committed on an ongoing basis to being an attractive employer of and reliable partner to its employees. Knowing that capable and committed employees are the most important factor for the success of any company, LBBW is investing in its employees' health, furthering them with targeted personnel development measures and helping them to achieve an optimum life/work balance. We want to gain outstanding talents and ensure that they remain with us; LBBW views the professional qualification of young people as an important social and business responsibility that it is very glad to address.

Sustainability Guidelines in business operations.

At LBBW, the procurement of products and services follows strict criteria which expressly also include environmental and social aspects. These criteria are considered in contract award decisions. The standards that LBBW applies to its own use of resources are equally as demanding. Thus, for example, CO_2 emissions from company travel, building management, IT and the consumption of materials are to be steadily reduced.

Sustainability ratings.

Munich-based oekom research AG gave LBBW an overall grade of C+ on a scale of A+ to D-. This result put LBBW in the top spot out of 76 banks analyzed internationally in the »Financials/Public & Regional Banks 2014« segment as of May 2014. 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 2014, LBBW received 77.4 of 100 possible points (previous year: 72) and therefore holds 12th place out of 361 in the international banks category. This is the second best result achieved by a German financial institution in the ranking (as of August 2014).

In imug's Sustainability Rating 2013, LBBW was evaluated positively as an issuer of public-sector and mortgage Pfandbriefe as well as unsecured bonds – this refers to all types of unsecured, fixed-interest securities, and time and savings deposits. LBBW was thus in the top quarter of the 126 national and international bank bond issuers evaluated. Of the eight German Landesbanken, LBBW took the top spot in the issuer rating overall (as at April 2014).

Data and facts.

Personnel policy (figures for LBBW (Bank)).

	2014		2013		2012	
	Men	Women	Men	Women	Men	Women
Breakdown of managers (Tier 1 to 4) %	83.5	16.5	83.7	16.3	83.9	16.1

	2014		2013		2012	
	Absolute	Percentage	Absolute	Percentage	Absolute	Percentage
Number of disabled employees or equivalent status	434	4.7	348	3.8	399	4.2

	2014	2013	2012
Average age	42.8	42.5	42.5

	2014	2013	2012
Average length of service in years	16.9	16.6	16.7

Investment business.

EUR million	2014	2013	2012
Volume of sustainable cash investments at LBBW Asset Management Investmentgesellschaft mbH	597.5	515.9	426.7

Lending business.

EUR billion	2014	2013	2012
Volume of renewable energies project finance / loan drawdowns	2.55	2.62	2.73

Business report for the Group.

Overall economic development.
Global economy.

The economy experienced a slight improvement in 2014. Global economic output is likely to have increased by 3.5 % compared to a 3.0 % improvement in 2013. The revival in the eurozone was striking; after a weak year in 2013, when GDP contracted by 0.5 %, the region returned to growth with a 0.9 % improvement. Growth also picked up in the USA as the end of the dispute over the debt ceiling, among other things, helped boost the country's economy. GDP growth in 2014 is expected to amount to 2.4 % after a 2.2 % increase in 2013. The pace of growth in China was not entirely able to keep up with the previous year. Nonetheless, with a 7.4 % increase in economic output, the high rate of growth in an international comparison was maintained. The other major emerging markets are still lagging behind. India saw its GDP climb by 5.8 % in 2014. Russia and Brazil came close to stagnation with growth rates of 0.6 % and 0.1 %, respectively.

The past year also entailed considerable risks, however. From a German and European perspective, the regions worthy of particular mention here are Syria, Iraq and (eastern) Ukraine. The various parties were entangled in military conflicts that also caused concerns here in Germany. In the case of Syria and Iraq, the affected region is significant for Europe given its close proximity to the major oil deposits of the Middle East. As for Ukraine, Russia's involvement has affected the EU's interests; Ukraine itself borders a number of EU states and is a transit country for the supply of gas between Central Europe and Russia.

The geopolitical risks just mentioned, however, have not caused oil prices to rise contrary to what many had feared. Instead, oil prices fell drastically towards the end of the year. The reason for this lay in the expanded supply as a result of Libya's return to the market as a producer while the significant oil-producer Saudi Arabia maintained its production upon Libya's return instead of curbing it. While the price of oil hovered around the USD 110 mark for a barrel of North Sea Brent from the start of 2014 to around mid-year, a price decline set in during the second half. This continued at the end of the year and prices have remained low so far this year. A barrel of North Sea oil at the end of December was below USD 56. The price decline caused the rate of inflation in the eurozone to fall to – 0.2 % in December.

The debt crisis among EMU states showed an initial easing in the period under review. The program countries of Ireland and Portugal returned to the bond market at the beginning of the year by issuing their own debt instruments. However, the Greek government's failed attempt to get a new president elected early caused unrest on the markets in December. Polls revealed that the Syriza party would be the strongest faction and that the modalities of financial aid would have to be renegotiated between Greece and the Troika, which happened at the end of January 2015.

Germany.

Germany's economic output in the past year rose by 1.6% over the previous year according to an estimate by the German Federal Statistical Office. After a growth rate of 0.8% in the first quarter over the same period of the previous year, the economy stagnated in the next two quarters due to the geopolitical risks posed, especially the situation in Ukraine. The final quarter brought about a significant revival, with a 0.7% improvement over the previous quarter, mostly owing to domestic demand. The increase in the cost of living remained moderate throughout 2014 and reached an annual average of 0.9%. The labor market once again showed a positive trend. The number of people employed with an obligation to contribute to social security climbed to 30.7 million as at October 2014 (the last month for which data are available). This was an increase of 500 thousand versus the same month of the previous year. The unemployment rate by year-end 2014 had fallen to 6.3%, which was 0.4 percentage points below the figure from December 2013. The robust economy and upswing on the labor market enabled the Federal Government to present a balanced budget for the 2014 fiscal period without any additional borrowing.

Central bank policy.

The Federal Reserve left its key interest rate unchanged in the historically low range of 0% to 0.25% for the sixth calendar year in succession, but continued to step away from its ultra-expansive monetary policy over the course of the year. It gradually reduced its purchases of government bonds and mortgage-backed securities. Taking the planned volume of USD 85 billion a month in January 2014 as a basis, this figure thus demonstrated a gradual decrease. Additional bond purchases within the scope of the expansive monetary policy came to a halt in November 2014, but the Fed (as before) will obtain new bonds in the volume of the maturing coupons and bonds in the portfolio.

In the eurozone, on the other hand, the ECB continued its quantitative easing policy. In light of the subdued economic trend in large parts of the EMU and the strong declines in the rate of inflation, the ECB cut its interest rates again in June. The main refinancing rate was reduced from 0.25% to 0.15% and the deposit rate used by commercial banks to place their balances with the ECB was reduced from 0% to – 0.10%, putting it in negative territory for the first time in the ECB's history. In September, the ECB Council decided on another interest rate cut, this time to 0.05% for the main refinancing rate and – 0.20% for the deposit rate. The ECB also decided on other measures to inject liquidity into the economy and announced the purchase of covered bonds and asset-backed securities as well as a number of targeted long-term funding operations lasting up to three years. These measures have helped and will continue to help commercial banks obtain liquidity in order to expand their lending to private non-banks (with the exception of residential real estate loans). Facing the risk of deflation, the ECB Council also decided at its first meeting of the new year on 22 January to switch to the acquisition of government bonds on the secondary market via the Eurosystem. From March 2015 up to and including September 2016, a total of EUR 60 billion in covered bonds, asset-backed securities and, above all, bonds from EMU states, their agencies and EU institutions are to be bought up every month.

Bond market.

The ECB's extremely expansive monetary policy combined with the low rate of inflation and the deflationary risks that come with this have meant new record lows for the yields on the Bund market. Ten-year Bunds showed a nearly continuous downtrend from the beginning of 2014 to the end of the year. Bunds reported a positive performance from coupon and price changes in every single month. The year started off with a yield of 1.94% on ten-year Bunds, which was the high-point for the year. The same asset class ended with a market yield of 0.54%, which marked both a yearly low and the all-time low at that time. The trend even continued initially in the new year; yields fell to 0.36% at the end of January. The yields on two-year Bunds fell into negative territory in August, and the market yield at the end of the year was close to zero even for the five-year remaining maturities. In the USA, the ten-year yields on US Treasuries also showed declining trends for nearly the entire year, dropping from 3.01% at the beginning of the year to 2.18% at year-end. In contrast to the eurozone, however, the yields on two-year US Treasuries rose on balance. The gap between the yields of two-year and those of ten-year Treasuries, which was still 265 basis points at the start of the year, contracted to 154 bp at the end of the year.

Currency market.

From a European perspective, the year was split into two halves on the currency market. Price fluctuations were minor in the first half of the year, with the rate of the EUR to the USD hovering between 1.35 and 1.40, whereas the value of the EUR to the USD fell constantly in the second half of the year. By the end of 2014, one EUR only bought USD 1.21. This trend also continued in the new year, as the monetary policy measures adopted by the ECB and the renewed fears of Greece going bankrupt caused the EUR to fall below USD 1.12. The rate of the CHF was worth noting at the start of the new year. While the rate in 2014 was continuously just over CHF 1.20 per EUR and the margin of fluctuation remained moderate, the EURCHF slumped abruptly to less than CHF 1 per EUR on 15 January 2015. The reason for this lay in the Swiss National Bank's decision to allow its currency to appreciate over the EUR in the future and restrain from intervention on the currency market to keep the exchange rate at CHF 1.20 to the EUR.

Stock market.

The performance on the stock market was positive, but showed some declining tendencies as measured in percentage increases. The index growth of 2.7% was the weakest result for the Deutscher Aktienindex (DAX) since 2011. Nonetheless, new records were set in 2014. The DAX exceeded the 10,000-point mark for the first time in summer 2014 and closed out the year at 9,805 points. The DAX had closed out the previous year at 9,552. In the USA, the Dow Jones index rose from 16,576 to 17,823 points. The 7.5% increase was thus much smaller than the 26.5% increase seen in 2013. The yearly high for the Dow Jones was 18,053 index points, which also marked a record high.

Banking industry performance.

Developments in the German banking industry in 2014 were mainly characterized by the historically low interest rate and efforts to tackle the regulatory changes that institutions face not only in terms of rising costs, but also in the operational implementation of increasingly complex prudential requirements. Combined with the challenging market environment characterized by the low interest level, persistently intense competition and subdued demand for loans within the economy in the first half of the year, the stricter capital requirements and regulatory costs contributed to a tense income situation on the German banking market overall.

The comprehensive assessment which preceded the transfer of supervision of the largest European banks to the ECB in November 2014 presented the affected institutions with a special challenge and burden that led to considerable additional expenditures. The process itself confirmed the mostly good asset quality of the German banks examined, sufficient capital backing and solidity of bank balance sheets in an adverse scenario.

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

Business development in 2014.

Despite the tough general conditions described in the preceding Banking industry performance chapter, the LBBW Group's central financial performance indicators for the full year 2014 showed a satisfactory trend overall.

The Group's solid profit trend also continued in the past 2014 financial year. Despite the slightly lower income in the core business fields, **net consolidated profit before tax** at EUR 477 million in the 2014 financial year exceeded the previous year's figure (EUR 473 million) by EUR 4 million. Allowances for losses on loans and advances were reduced markedly from the previous year in LBBW's core markets thanks to the good economic situation. The net gain from financial investments and net income from investments accounted for using the equity method, which were largely influenced by investment transactions, were extraordinarily sound at EUR 263 million and showed a rise of EUR 247 million over the previous year. This was strained, however, by a substantial drop in net gains from financial instruments measured at fair value and an increase in administrative expenses, largely as a result of efforts to meet regulatory requirements (which were extremely high and also rose versus the previous year).

Total assets as at 31 December 2014 came to EUR 266.2 billion, which was a slight drop versus the previous year's final figure (EUR 274.6 billion). The overall 3.1 % drop was attributable to several factors. This was largely traced back to the further reduction of non-core banking activities in particular (including the complete sale of the guarantee portfolio and large parts of the other credit substitute business). In non-trading transactions, loans and advances to banks also decreased. The lending business with customers, in contrast, was expanded. On the whole, lending was focused on core business fields and the savings banks as affiliated partners as part of LBBW's efforts to gear its business model to the needs of customers.

Net consolidated profit before tax in the 2014 financial year marginally exceeded the **planned figure**. The income items within the detailed forecast are nearly balanced in terms of positive and negative deviations. Net profit for the year got a boost from the earnings effects (not planned to this extent) from the full winding-down of the remainder of the guarantee portfolio and from sales of equity investments and the reversal of provisions. Allowances for losses on loans and advances were noticeably better than planned; the low need for allocations reflected the sound quality of the loan portfolio. Income from financial instruments measured at fair value remained below the Bank's own expectations, primarily as a result of general customer reticence as well as market valuations straining the banking book, in particular. Administrative expenses were marginally above the planned figure due to surprisingly high negative effects from regulatory requirements, among other things. These developments also put the **cost/income ratio (CIR)** at year-end well above the planned figure at 77.9% (previous year: 63.4%).

Total assets of the LBBW Group at year-end were slightly below the planned figure. The sound market environment was also used to cut back levels in the non-core banking business in a targeted manner.

The Group's **financial position** throughout the entire reporting year was satisfactory on account of the good liquidity. In addition to its classic funding options obtainable from the money and capital markets, this also gives LBBW other funding options as offered by the central banks. The Group was therefore always able to obtain funding on the market on the requisite scale.
The lower funding requirement resulted in a reduction of the liabilities on the balance sheet due to the phasing out of non-core banking business on the assets side in keeping with the strategy. Subordinated capital was reduced to EUR 6.2 billion as at the balance sheet date (previous year: EUR 7.1 billion). The scheduled repayment of silent partners' contributions in the amount of EUR 1 billion was a key factor here.

The regulatory capital requirements and capital ratios have been calculated in accordance with the provisions of the CRR since 2014. With a **common equity Tier 1 capital ratio** of 13.6% (previous year: 12.6% internal calculation) and **total capital ratio** of 18.9% (previous year: 18.7% internal calculation), the LBBW Group's capital ratios as at the reporting date were noticeably above the stricter supervisory capital requirements of the CRR after full implementation of the transition rules (fully loaded). The continued reduction of **risk weighted assets** (primarily in the portfolios of the non-core bank) among other things contributed to the improvement in ratios. Risk weighted assets initially rose to EUR 89.8 billion due to the introduction of the CRR according to internal calculations, but were then scaled back in the period under review by EUR 7.6 billion to EUR 82.2 billion with the reduction of non-core banking activities, among other things. Looking at the forecasts made in the previous year, the three aforementioned performance indicators were exceeded.

The **leverage ratio** at LBBW of 4.1% (fully loaded) as at year-end 2014 was also well above the minimum 3.0% stipulated by supervisory authorities.

Results of operations.

Net profit/loss before tax of the three **operating segments** Corporates, Financial Markets and Retail/Savings Banks totaled EUR 1,067 million for the 2014 financial year (previous year: EUR 1,170 million). This was offset by an improved, but still negative result in the credit investment segment. This was also hampered again in 2014 by the fee for the guarantee of the State of Baden-Württemberg, although this will be reduced further in 2015.

Please refer to the Notes for details regarding the presentation of individual segment results.

Figures:

	1 Jan. 2014 – 31 Dec. 2014 EUR million	1 Jan. 2013 – 31 Dec. 2013[3] EUR million	Change EUR million	in %
Net interest income	1,878	1,773	105	5.9
Allowances for losses on loans and advances	– 104	– 314	210	– 66.9
Net fee and commission income	518	545	– 27	– 5.0
Net gains/losses from financial instruments measured at fair value through profit or loss [1]	– 120	369	– 489	-
Net gains/losses from financial investments and net income/expenses from investments accounted for using the equity method	263	16	247	> 100
Other operating income/expenses [2]	101	113	– 12	– 10.6
Total operating income/expenses (after allowances for losses on loans and advances)	**2,536**	**2,502**	**34**	**1.4**
Administrative expenses	– 1,853	– 1,774	– 79	4.5
Operating result	**683**	**728**	**– 45**	**– 6.2**
Guarantee commission for the State of Baden-Württemberg	– 191	– 300	109	– 36.3
Impairment of goodwill	– 16	– 3	– 13	> 100
Net income/expenses from restructuring	1	48	– 47	– 97.9
Net consolidated profit before tax	**477**	**473**	**4**	**0.8**
Income tax	– 43	– 134	91	– 67.9
Profit/loss from discontinued operations	0	0	0	
Net consolidated profit/loss	**434**	**339**	**95**	**28.0**

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

Net interest income climbed by EUR 105 million versus the previous year to EUR 1,878 million despite the declining business volume overall. Together with the continuously low interest level on the money and capital markets, interest expenses showed a sharper drop than interest income. The drop in interest income was a result of both the lower interest level once again and, in large part, the decline in volumes of loans and advances as well as the further winding-down of the non-core banking business. Interest expenses also fell primarily as a result of the improved funding options due to interest rates and liquidity. This was also a product of LBBW's stable and even improved ratings. Net interest income from trading and hedging derivatives put up a strong performance as well. The lower derivative volume was a critical factor here in particular.

Expenses for **allowances for losses on loans and advances** fell substantially by EUR 210 million year on year to EUR – 104 million. This was primarily attributable to much lower direct write-downs and reductions in net additions to specific valuation allowances versus the same period of the previous year. The allowance requirement overall was therefore sizably lower than the planned figures and the long-term average, thus reflecting the sound quality of the loan portfolio and the scaling back of risk at LBBW.

Net fee and commission income dropped moderately in the year under review by EUR – 27 million to EUR 518 million (previous year: EUR 545 million), with the individual types of fees and commissions showing a difference in performance. Slight improvements in the net fee and commission income from asset management as well as from securities and custody transactions were pitted against lower net fee and commission income in payments and, due to the restrained demand for loans, noticeably lower net fee and commission income from loans and sureties.

Net gains/losses from financial instruments measured at fair value through profit or loss fell significantly versus the previous year, namely by EUR – 489 million to EUR – 120 million. The reasons for the net loss for the year came include a sizable drop in the profit contribution due to spread tightening for credit derivatives. Income from derivative financial instruments serving as economic hedges but unable to be included in the hedge accounting according to IFRS was also weaker than planned. The decline in the customer-oriented capital markets business also exerted strain. The reason for this was the lower demand for hedging products in particular. It should be noted that the extremely high figure from the previous year was marked by lively trading with interest rate products, among other things. In addition, the result was influenced by the expenses item, which was pitted against income, especially net interest income, due to IFRS reporting methods. The market valuation of own liabilities resulted in an expense of EUR – 15 million because of LBBW's improved credit rating, but was still lower than the previous year (EUR – 82 million).

Net gains/losses from financial investments and net income/expenses from investments accounted for using the equity method rose sharply year on year by EUR 247 million to EUR 263 million.

At EUR 62 million, the gain or loss on **securities** was heavily influenced once again by the continued reduction in volumes and risks in the portfolios of the non-core banking business (credit substitute business). In the 2014 financial year LBBW sold the remainder of its guarantee portfolio and large parts of the non-guaranteed portion of its credit substitute business, with a total volume of EUR 9 billion. There were no additional profit burdens as reported at this point in the previous year. The remaining portfolio of EUR 2.4 billion (the original volume was roughly EUR 95 billion) will continue to be wound down.

The valuation and sale of **equity investments** in the financial year produced a profit of EUR 84 million (previous year: EUR 18 million). The disposal of equity investments had a positive impact of EUR 97 million here (previous year: EUR 37 million). Measurement issues yielded a net burden of EUR – 13 million (previous year: EUR – 18 million).

Income from investments accounted for using the equity method rose by EUR 111 million in the period under review to EUR 117 million (previous year: EUR 6 million). Among other things, the significant increase resulted from higher profit contributions from a venture capital company and was largely due to LBBW's profit share from the sale of an investment.

Other operating income and **net income from investment property** at EUR 101 million fell just short of the previous year's level (EUR 113 million). This was characterized by a number of one-off effects. The exceedingly successful previous year for real estate was not matched in the year under review. Successful project developments helped generate earnings of EUR 29 million (previous year: EUR 99 million). Impairments on real estate in the amount of EUR – 1 million (previous year:

EUR – 18 million) declined, however. The fair value measurement of investment property, in contrast, yielded value adjustments of EUR – 37 million (previous year: EUR 1 million) due to real estate valuations being updated. However, other operating income got substantial relief from net reversals of provisions being made possible in connection with legal and litigation risks in the amount of EUR 34 million. The sale of a subsidiary, which had yet to be concluded at the end of 2013, had weighed the previous year's result down by EUR – 30 million. The transaction was completed in September of last year. This again resulted in a profit burden of EUR – 20 million.

Administrative expenses rose by EUR – 79 million year on year from EUR – 1,774 million to EUR – 1,853 million overall. There were further structural changes again in 2014, due to the outsourcing of IT activities that began in 2013. Within administrative expenses, staff costs fell marginally by EUR 3 million. Other administrative expenses saw selective relief, but higher burdens to deal with regulatory requirements, increased contributions for the bank levy and higher IT spending overall led to a EUR – 87 million increase. Projects started in the past year to restructure the IT architecture with the aim of accommodating the growing degree of bank management requirements were also key factors behind the increase. In addition, the first-time consolidation of subsidiaries also caused expenses to increase. There was some relief, however, for administrative expenses in the depreciation of property and equipment and amortization of intangible assets.

Expenses incurred for the **guarantee commission** for the State of Baden-Württemberg fell by EUR 109 million to EUR – 191 million as a result of the complete sale of the guarantee portfolio over the course of 2014. LBBW continues to finance the special-purpose entity Sealink, which is not required to be consolidated within the Group. The state of Baden-Württemberg still offers a guarantee for certain loans to this special-purpose entity, for which fee and commission expenses will continue to accrue.

Against the backdrop of sustained low interest rates, muted market volatility and general customer reticence, the **goodwill** of EUR – 16 million allocated to the Financial Markets segment was written off in full.

Expenses and income from **restructuring measures** amounting to a net figure of EUR 1 million accrued in the past financial year. The result is a EUR – 47 million drop in this item versus the previous year. A positive effect from the net reversal of restructuring provisions no longer needed amounting to EUR 48 million in the previous year was a critical factor behind this change.

Based on the developments above, **net consolidated profit before tax** at EUR 477 million marginally exceeded the previous year's figure by EUR 4 million (previous year: EUR 473 million).

A **tax expense** totaling EUR – 43 million was incurred in the year under review, compared with EUR – 134 million in the previous year. Current income taxes rose by EUR 26 million in the 2014 financial year to EUR – 76 million, largely as a result of the performance at LBBW Bank in particular. Income taxes pertaining to previous years improved to EUR 31 million, especially as a result of several extraordinary effects, including the recognition of write-downs to the going-concern value of leasing companies in the event of long-term impairments, which should now be recognized in profit or loss. Deferred taxes worth EUR 1 million also accrued. This EUR 27 million improvement over the previous year is largely attributable to the reversal of temporary effects.

Net consolidated profit after tax climbed significantly by EUR 95 million to EUR 434 million (previous year: EUR 339 million).

Net assets and financial position.

Assets	31 Dec. 2014 EUR million	31 Dec. 2013[1)] EUR million	Change EUR million	 in %
Cash and cash equivalents	1,936	2,156	– 220	– 10.2
Loans and advances to banks	38,424	47,625	– 9,201	– 19.3
Loans and advances to customers	113,195	111,453	1,742	1.6
Allowances for losses on loans and advances	– 1,594	– 2,201	607	– 27.6
Financial assets measured at fair value through profit or loss	79,884	70,105	9,779	13.9
Financial investments and shares in investments accounted for using the equity method	29,352	40,957	– 11,605	– 28.3
Portfolio hedge adjustment attributable to assets	750	355	395	> 100
Non-current assets held for sale and disposal groups	93	727	– 634	– 87.2
Intangible assets	489	494	– 5	– 1.0
Investment property	705	481	224	46.6
Property and equipment	644	646	– 2	– 0.3
Current income tax assets	219	179	40	22.3
Deferred income tax assets	1,095	1,059	36	3.4
Other assets	1,038	610	428	70.2
Total assets	**266,230**	**274,646**	**– 8,416**	**– 3.1**

1) Adjustment of prior year values (see Note 2).

Equity and liabilities	31 Dec. 2014 EUR million	31 Dec. 2013[1] EUR million	Change EUR million	in %
Deposits from banks	52,314	58,045	– 5,731	– 9.9
Deposits from customers	69,874	82,053	– 12,179	– 14.8
Securitized liabilities	44,231	50,693	– 6,462	– 12.7
Financial liabilities measured at fair value through profit or loss	75,246	57,651	17,595	30.5
Portfolio hedge adjustment attributable to liabilities	751	685	66	9.6
Provisions	3,455	3,133	322	10.3
Liabilities from disposal groups	0	915	– 915	– 100.0
Current income tax liabilities	69	58	11	19.0
Deferred income tax liabilities	66	169	– 103	– 60.9
Other liabilities	787	742	45	6.1
Subordinated capital	6,229	7,103	– 874	– 12.3
Equity	13,208	13,399	– 191	– 1.4
Share capital	3,484	3,484	0	0.0
Capital reserve	8,240	8,240	0	0.0
Retained earnings	920	1,214	– 294	– 24.2
Other income	111	104	7	6.7
Unappropriated profit/loss	434	339	95	28.0
Equity attributable to non-controlling interest	19	18	1	5.6
Total equity and liabilities	**266,230**	**274,646**	**– 8,416**	**– 3.1**
Guarantee and surety obligations	5,574	5,933	– 359	– 6.1
Irrevocable loan commitments	23,432	19,071	4,361	22.9
Business volume	**295,236**	**299,650**	**– 4,414**	**– 1.5**

1) Adjustment of prior year values (see Note 2).

Consolidated total assets continue to decline.

Total assets fell again slightly at the end of the financial year by EUR – 8.4 billion or – 3.1 % to EUR 266.2 billion.

Major factors here were significantly lower levels of loans and advances to banks as well as financial investments, the latter as a result of the continued reduction of risk in the non-core banking business during this period. The level of financial assets measured at fair value through profit or loss showed the opposite performance against the backdrop of the strong movement of interest rates. Following the subdued business on the assets side, both liabilities to banks and customers and securitized liabilities decreased. The level of trading liabilities, in contrast, rose heavily over the course of the year under review.

The **volume of business** was reduced by EUR – 4.4 billion or – 1.5 % to EUR 295.2 billion. In addition to the decline in total assets, another contributing factor was the reduction of guarantee and surety obligations by EUR – 0.4 billion. Irrevocable loan commitments showed the opposite trend with a EUR 4.4 billion increase.

Lending.

Loans and advances to banks decreased by EUR – 9.2 billion on the previous year, thus ending at a figure of EUR 38.4 billion. Public sector loans were reduced by EUR – 4.4 billion. In addition, a EUR – 3.2 billion drop in the volume of securities repurchase transactions with banks and a decline in current account claims by EUR – 0.5 billion were reported.

Given the increase in **loans and advances to customers** by EUR 1.7 billion, a volume of EUR 113.2 billion was reached as at 31 December 2014. The performance was largely a result of the EUR 5.3 billion increase in securities repurchase transactions due to tri-party repo transactions with multinational financial service providers (including also central counterparties such as FICC and LCH). The opposite was seen for the figures resulting from maturities of overnight and term money with declines of EUR - 0.5 billion as well as from mortgage loans at EUR - 0.7 billion and for other loans totaling EUR - 2.4 billion.

The rise in **financial assets measured at fair value through profit or loss** by EUR 9.8 billion to EUR 79.9 billion was primarily a result of the expanded trading assets. The decline in interest rates seen since the start of the period under review was reflected in the measurement of derivatives held for trading; in total, the fair values rose by EUR 8.6 billion in the past year. In addition, the rise in money market transactions led to an increase in the portfolio of EUR 0.9 billion and that of bonds increased the trading portfolio by EUR 0.7 billion. The decline in bonds and debentures totaling EUR - 0.6 billion was almost equally matched by a rise in short-term money market instruments, also referred to as commercial papers and certificates of deposit.

The level of **financial investments and shares in investments accounted for using the equity method** fell by EUR - 11.6 billion to EUR 29.4 billion as a result of the continued scaling back of risk. Given the sale of the guarantee portfolio and maturities exceeding the new business, the portfolio of bonds and debentures declined by EUR - 17.8 billion. This was due to, among other things, the maturing of a GPBW GmbH & Co. KG bond (guarantee company of the State of Baden-Württemberg) in the amount of EUR - 12.7 billion, which was acquired in connection with the guarantee structure of the risk shield. A newly issued bond in the amount of EUR 5.5 billion was acquired from GPBW GmbH & Co. KG in order to act as a risk shield for the loan issued to the special-purpose entity Sealink.

The portfolio of investments accounted for using the equity method remained at the previous year's level due to offsetting effects from disposals and additions resulting from the change in the scope of consolidation.

The change in long-term assets held for sale by EUR - 0.6 billion was largely a result of the completed sale of a subsidiary. The opposing item on the liabilities side was reduced by EUR - 0.9 billion.

Funding.

The portfolio of **deposits from banks** decreased by EUR - 5.7 billion to EUR 52.3 billion compared to the level as at 31 December 2013. Declining volumes from securities repurchase transactions in the amount of EUR - 2.4 billion were a key factor contributing to this. The fact that maturities exceeded the new business volume caused declines in the level of debentures at EUR - 1.9 billion and the volume of registered covered bonds at EUR - 0.5 billion.

Deposits from customers at EUR 69.9 billion were EUR - 12.2 billion below the previous year's figure. This was primarily owed to a reduction of overnight and term money amounting to EUR - 9.2 billion. A major portion of the decline came from the EUR - 7.2 billion reduction of cash collateral put up by GPBW GmbH & Co. KG (guarantee company of the State of Baden-Württemberg). This is because a portion of the guarantee volume is longer required given the complete sale of the guarantee portfolio. So there are still term deposits of EUR 5.5 billion to secure the loan issued to the special-purpose entity Sealink. The EUR - 2.0 billion decrease in borrower's note loans as well as maturing and partially repaid registered covered bonds reduced the size of the portfolio by

EUR - 1.2 billion. The level of customer-oriented securities repurchase transactions had declined by year-end, namely by EUR - 1.0 billion.

Given the subdued demand for loans, only a small degree of maturing issues were replaced. As a result, the level of **securitized liabilities** has also been reduced by EUR - 6.5 billion to EUR 44.2 billion due to extraordinary and partial repayments over the year. The decline was largely owed to maturing or partially repaid covered bonds at EUR - 3.1 billion and debentures at EUR - 3.5 billion.

Similar to the assets side, **liabilities measured at fair value through profit or loss** rose by EUR 17.6 billion to EUR 75.2 billion. A major portion of the rise in trading was traced back to the lower interest level since the start of the period under review, which led to a rise in the fair value of derivatives held for trading by roughly EUR 10.4 billion. In addition, the portfolio of money market transactions recognized as other trading liabilities increased at year-end by approximately EUR 7.8 billion to EUR 36.3 billion.

A drop in **subordinated capital** by EUR - 0.9 billion to EUR 6.2 billion was reported in the year under review. This largely came about through the repayment of silent partnership contributions to the owners in April 2014 at a nominal figure of EUR - 1.0 billion and the omission of interest liabilities from restitution at around EUR - 0.2 billion. Considering maturities and new issues, the level of subordinated liabilities rose by some EUR 0.5 billion in the period under review. The portfolio of capital generated from profit-participation rights, however, declined.

Equity.

At the end of 2014 LBBW had equity of EUR 13.2 billion on the balance sheet, which came up just short of the previous year especially as a result of actuarial losses. The reduction of the discount rate for pension provisions as at year-end from 3.50% to 2.15% was the key factor here.

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 always able to obtain funding on the market on the requisite scale. The LiqV liquidity indicator is only determined at the level of the Bank and totaled 1.34 as at 31 December 2014 (previous year: 1.47).

Risk and opportunity report.

Basic principles.

Risk-oriented steering instruments.

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 steering instruments 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
- Sustainable observance of EBA stress test requirements and 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 for 2015 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, 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. They include both general risk guidelines on the topics of MaRisk, management, new products and markets and outsourcing as well as risk guidelines on specific risk types.

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 deviation analyses, monthly analyses of results, and strategic and operational limit systems.

Risk management systems.

Risk capital management.

LBBW's risk management procedures are always appropriately structured on the basis of the type, scope, complexity and risk content of the business activities. This 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 by the European Central Bank (ECB) and the German Federal Financial Supervisory Authority (BaFin), by the statutory auditor and the Group Auditing division and 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 risk	...Losses arising from the default or deterioration in the credit rating of business partners. ...Defaults by sovereign borrowers or restrictions on payments. ...Losses arising from shortfall in proceeds from the liquidation of collateral.
Market price risks	...Losses caused by changes in interest rates, credit spreads, equity prices, exchange rates, commodity prices, volatility. ...Problem of not being able to quickly close out larger positions at market value.
Liquidity risks	...Problems meeting payment obligations in the short term.
Operational risks	...Losses arising from the unsuitability or failure of internal processes and systems, people, or due to external events, including legal risks.
Investment risks	...Losses in the value of Group companies and equity investments not included in the above risk categories.
Reputation risks	...Losses caused by damage to the Bank's reputation.
Business risks	...Losses due to less favorable business performance than expected or from strategic errors, provided that they do not relate to other characteristic banking risks.
Pension risks	...Increase in provisions for pensions.
Real estate risks	...Losses in the value of the Group's real estate holdings.
Development risks	...Losses resulting especially from potential plan variances in the project development business of LBBW Immobilien Management GmbH.

Economic capital and aggregate risk cover.

A Group-wide compilation of risks across all material risk types and subsidiaries, and the comparison of this 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 AfS reserves), subordinated debt and income statement results 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 economic capital necessary to cover the risk exposure resulting from 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 by 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 LBBW Group's maximum willingness 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 in accordance with the Minimum Requirements for the Design of Recovery Plans (MaSan) 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 management across risk types, economic risk management is implemented at segment level. LBBW’s risk capital management also includes the management of regulatory capital. 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 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 MaSan. 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 2014 financial year. In spite of the fact that maturities in subordinated capital due in 2015 were included for the first time, utilization of the aggregate risk cover increased only slightly, to 55 %, compared to the end of 2013. Furthermore, stress test resistance was maintained throughout the entire financial year.

LBBW Group – risk-bearing capacity.

	31 Dec. 2014 Absolute[1]	Utilization	31 Dec. 2013 Absolute[1]	Utilization
Aggregate risk cover	15,840	55 %	16,859	53 %
Economic capital limit[2])	12,800	68 %	12,800	70 %
Correlated total economic capital	8,645		8,923	
of which:				
interrisk correlations	– 475		– 535	
counterparty risk	4,274		4,304	
market price risk	2,118		2,297	
investment risk	175		171	
operational risk	885		1,119	
development risk	57		60	
real estate risk	258		262	
other risks [3]	1,353		1,245	

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

The slight decrease in economical capital tied up in counterparty and market price risk results in particular from the sale of most of the non-guaranteed portion of the credit substitute business. Furthermore, the upbeat market situation with regard to credit spreads and volatilities together with the improved portfolio quality have the effect of minimizing risk. The decline in operational risks can be attributed both to the further development of methodology and to updated model input data. This is counteracted by changed sensitivities, on the basis of which pension risks are calculated.

The aggregate risk cover (calculated as the minimum of the projected figures for the next 12 months) is dominated by maturities in subordinated capital due in 2015. This trend is partially offset by an issue of subordinated capital in 2014 and a downward trend in deduction items.

Opportunities.

The relevant aggregate risk cover (ARC) for calculating risk-bearing capacity is defined as the lowest ARC of the following twelve months (rolling 12-month minimum view). Opportunities therefore occur for the ARC when the actual ARC outstrips the projected development or when the ARC forecast improves in the wake of a positive trend. This is particularly the case for market trends (above all credit spreads) with a positive effect on earnings and capital figures 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.

Risk management processes and reporting.

Risk management and monitoring.

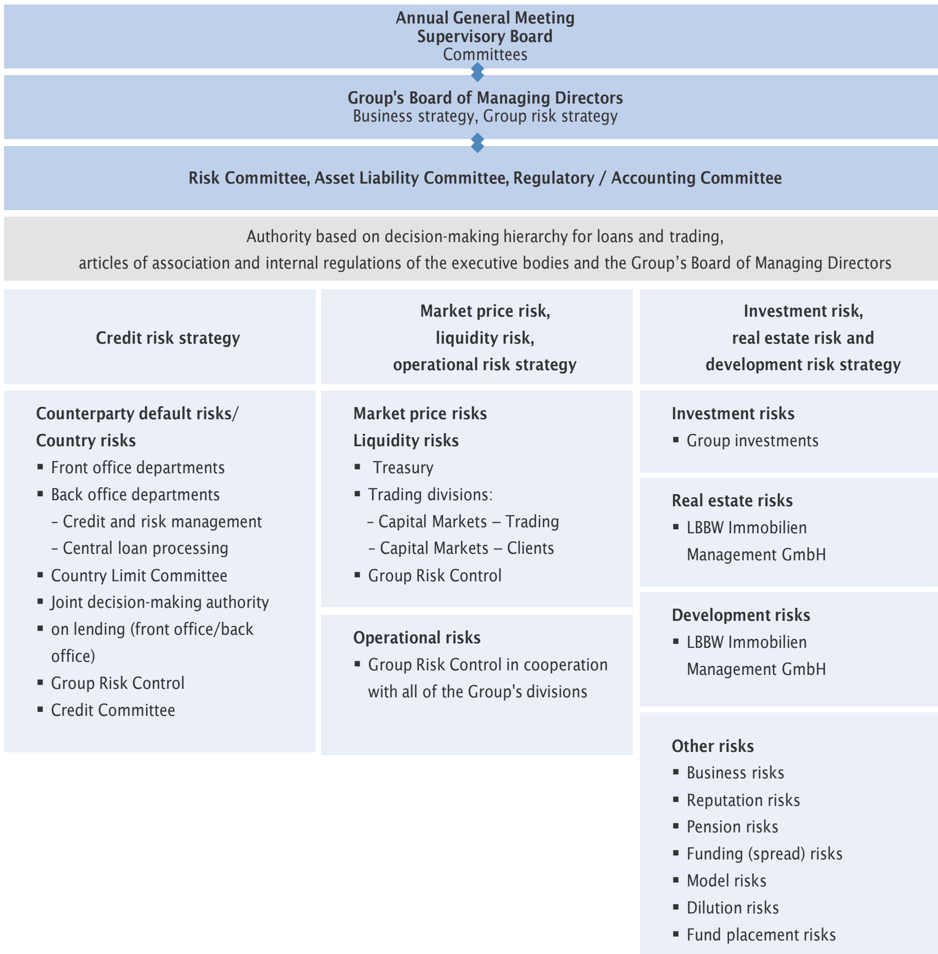
LBBW's risk management and monitoring is based on the guidelines of the risk strategy and the defined limits and approval powers.

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 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.



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/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/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 to take the measures required. The committee comprises the board members with responsibility for financial markets/international business, finance/controlling and risk management/compliance/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 workflows, 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 has been assigned to Directorate General I within the ECB's bank supervision, which is to assume responsibility for the 30 most important banks.

In order to prepare for the single European supervisory mechanism in 2014 a total of 130 European banks were subjected to a comprehensive assessment comprising a risk assessment, an asset quality review (AQR) and a stress test. The comprehensive assessment was conducted in close collaboration with the ECB and national regulatory authorities. In addition, the European Banking Authority (EBA) was involved in planning and conducting the stress tests.

LBBW successfully passed the Europe-wide stress test. In the so-called baseline scenario the Bank even achieved a common equity Tier 1 capital ratio of 12.29%. In the adverse scenario, in which among other factors a severe economic downturn and marked disruption on the financial markets were assumed, LBBW achieved a CET 1 capital ratio of 7.42%. This meant that the Bank considerably exceeded the minimum figure of 5.5% set by the ECB for the adverse scenario.

As the core item of future supervision the ECB will conduct an independent evaluation and review of the banks' capital and liquidity resources. These measures are based on the so-called Supervisory Review and Evaluation Process (SREP). Stress tests will remain a key regulatory instrument in the future.

CRD IV/CRR.

On 1 January 2014 the European implementation of the Basel III regulations came into effect via the CRD IV/CRR legislative package. The CRD IV/CRR essentially defines the requirements with regard to capital, liquidity and debt.

The 2014 financial year was dominated by the implementation of the details of the CRR in the form of numerous technical standards set by the EBA, which were systematically analyzed. The first reports resulting from the CRR requirements, e.g. the Financial Reporting (FinRep) on 30 September 2014, were implemented in the form of projects and submitted on schedule. Some individual topics such as the LCR report in accordance with European law, which is expected to become binding as of 1 October 2015, are still in the process of implementation,

These new regulatory developments have implications for business strategy, the strategic direction of the business areas, management metrics and technical reporting capacity. The interdependencies between the regulatory innovations and business strategy were and continue to be analyzed on an integrated basis and taken account of accordingly.

Recovery plan.

In April 2014 BaFin published the final version of the Minimum Requirements for the Design of Recovery Plans (MaSan). In November 2012 these already formed the subject of consultations. In this connection banks and financial groups that constitute a potential risk for the banking system are called upon to draw up a recovery plan.

LBBW drew up the recovery plan for the first time at the end of 2013 and submitted it to the regulatory authority.

The strategic analysis showed the company structure and business activities and how they are interlinked. In addition to this, an assessment was made as to which business activities are essential for LBBW and whether the disappearance of one business activity was critical for the market as a whole. Suitable options for action in a critical case were analyzed in the section on options for action. In this context the feasibility of the options for action and their effects on parameters such as capital, risk, liquidity and income in the normal case and in stress situations was studied. The section on recovery indicators identified recovery thresholds using a traffic light system in line with the steering instruments and MaRisk.

The recovery plan has to be updated on an annual basis as part of the standard process. The recovery plan was thus updated in 2014 and submitted to the regulatory authority. The recovery plan was audited by an auditing company supporting the project.

In the 2015 financial year the recovery plan will be updated on the basis of the German Bank Recovery and Resolution Act (Sanierungs- und Abwicklungsgesetz (SAG)), which came into effect on 1 January 2015, and relevant EBA documents taken into account. This act implements the Bank Recovery and Resolution Directive (BRRD) in national law.

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 have been or will in the near future be described in technical regulatory standards by the responsible market regulatory body, the European Securities and Markets Authority (ESMA), and approved by the EU bodies.

The first requirements from EMIR have had to be complied with since March and September 2013, respectively, and have been implemented. Among other things, a portfolio comparison was established, which enables the two parties to see the principal business details such as the market value. In August 2014 valuation and collateral information was added to the transaction register report.

The regulatory requirements are expected to come into effect gradually as of the end of 2015/ beginning of 2016, depending on the detailed comments by ESMA and approval by the EU decision-making bodies.

Detailed comments by ESMA on the clearing obligation for OTC derivatives and for collateral standards for OTC derivatives not centrally cleared are expected in 2015. In addition to this, ESMA plans to review the data subject to reporting requirements to the transaction register. In preparation for the clearing obligation for OTC derivatives, in 2010 LBBW began to set up a connection to a clearing house for the expected clearing obligation for interest-rate derivatives and to offer a corresponding clearing service for its customers. In 2014 a connection was established to a clearing house for credit derivatives.

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 system/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 risk management:

Components of counterparty risk management

Risk measurement	▪ Risk classification procedures (PD) ▪ Exposure at default (EaD) ▪ Evaluating collateral (LGD) ▪ Expected loss ▪ Credit Value-at-Risk (CVaR) ▪ Risk concentration ▪ Stress tests
Risk monitoring and reporting	▪ Individual transaction level, early warning indicators ▪ Intensive care of delinquent loans ▪ Portfolio level ▪ Write-downs ▪ Ad-hoc information on risk situation
Risk management	▪ Pricing in line with risk and equity ▪ Observance of the guidelines of the credit risk strategy at individual exposure level ▪ Measures to observe various portfolio limits ▪ Observance of the guidelines of the credit risk strategy at portfolio level ▪ Active management of credit risks

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 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.

Exposure.

Whereas exposure is tied to a specific date for reporting purposes, expected positive exposure is calculated to determine the CVaR and potential future exposure in order to calculate 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 credit derivatives 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). (Modified) nominals are used for issuer and reference debtor risks from securities and holdings in the banking book.

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 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.

Expected losses.

The expected loss – 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. In terms of the portfolio this figure (standard risk costs in basis points) may provide information on the expected risk content of a portfolio. In connection with the calculation of impairments, the concept of the expected loss is also resorted to for calculating general allowances for losses on loans and advances in order to estimate the incurred loss that has not yet been recognized because of delays in information.

The market price of the counterparty risk of OTC derivatives and money market loans 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. These are modeled with the help of internal and external data in such a way that correlations between borrowers can be adequately taken into account and borrower, sector and country concentration mapped. The credit portfolio model uses a

Monte Carlo simulation approach to calculate risk. CVaR is used as the parameter for economic capital used for credit risks in the risk-bearing capacity analysis and in LBBW's management.

Risk concentration and stress tests.

One of the main tasks of counterparty risk management is to avoid the concentration of risks from individual exposures and also at the portfolio level. For this purpose, there are specific limit systems restricting the acceptance of exposures at the borrower, sector and country level. Concentration risks in counterparty risk are clearly identified and recorded and monitored by including CVaR in 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. Moreover, counterparty risks are included in scenarios covering multiple risk types.

Risk monitoring and reporting.

Individual transaction level.

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.

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.

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.

- 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.

Value adjustments to problem assets.

Allowances for losses on loans and advances necessary for counterparty risks are calculated in accordance with uniform Group-wide standards and their appropriateness monitored on an ongoing or ad hoc basis. Allowances for losses on loans and advances are set aside or increased if objective indications point to an (increased) impairment in financial assets. Objective evidence of impairment includes default events that have already occurred, such as:

- arrears/infringement > 90 days,
- unlikely repayment (doubts as to the credit rating),
- rating-induced restructuring/debt rescheduling or
- insolvency (petition).

In addition to this, forbearance (defined as concessions to the borrower for economic or legal reasons in connection with his financial difficulties that would otherwise not be granted) may indicate an impairment. Objective indications of impairment are checked on a case-by-case basis.

Reporting.

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, including details about the risk situation at the portfolio level and compliance with the material limits. Portfolio analysis 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 part of 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 the monitoring of concentration risks at the level of sectors, countries and individual counterparties.

Individual transaction level.

Risk management at the level of individual exposures is the duty of the credit back offices. As a rule, the upper limits are set individually by the respective holder of approval powers. This upper limit is taken into account for all risk-relevant transactions by a customer or borrower unit / group of associated companies (pursuant to CRR). A material part of managing individual transactions involves monitoring compliance with the requirements defined in the credit risk strategy. This determines the framework for LBBW's business strategy 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, the components in the calculations are the cost requirement margin (cover for processing costs), the risk range (cover for expected loss) and the capital range (interest on equity to cover unexpected loss). The results of the preliminary costing calculation 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 bank office 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 corporate 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 level, risks are limited through measures to ensure adherence to the quantitative 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, utilization of the limit on the economic capital for counterparty risks based on the CVaR is monitored particularly closely. A traffic light system recognizes at an early stage if limits are close to being fully utilized and measures to mitigate risk are initiated. In addition, the results of the stress tests provide indications of potentially dangerous risk constellations which necessitate measures for the reduction of risk.

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 31 Dec. 2014	Carrying amount	Reconciliation Basis of consolidation	 Measurement	 Other	Management approach
Cash and cash equivalents	1,936	- 9	- 1,008	0	920
Trading assets (HfT)	76,043	1,185	47,725	82	125,035
Financial assets designated at fair value	1,001	- 47	- 166	0	788
Positive fair values from hedging derivatives	2,840	- 5	1,814	0	4,649
Financial investments (AfS)	22,979	2,061	- 2,889	0	22,151
Receivables	151,619	- 1,961	5,459	- 2,583	152,534
Financial investments (LaR)	6,071	- 17	- 39	- 3	6,011
Non-current assets held for sale and disposal groups	93	- 76	0	- 17	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.

Development of exposure.

Exposure to counterparty risks in 2014 was always in accordance with the risk-bearing capacity of the LBBW Group.

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. 2014	31 Dec. 2013
Gross exposure	**363,047**	**374,643**
Netting/collateral	90,999	68,502
Credit derivatives (protection buy)	15,878	20,550
Classic credit collateral	43,886	42,781
Net exposure	**212,284**	**242,810**

As at the reporting date, net exposure amounts to EUR 212 billion, EUR 31 billion less than at the end of 2013. This change results principally from the wind-down of the non-core-business portfolio, in particular from the sale of the securitization portfolio guaranteed by the owners as well as large portions of the non-guaranteed credit substitute business. Furthermore, there were maturities in the financials portfolio and decreases in public-sector budgets.

In a reporting date comparison the gross exposure decreases by EUR 12 billion. Here, higher market values for derivatives have the opposite effect on the aforementioned portfolio reduction. This means that the risk-mitigating effects of netting / collateral agreements increase to the same extent.

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. Net exposure forms the principal basis.

Portfolio quality.

Presenting the portfolio by internal rating class depicts how the portfolio quality has developed compared to 31 December 2013.

Portfolio quality.

Net exposure	EUR million 31 Dec. 2014	in % 31 Dec. 2014	EUR million 31 Dec. 2013	in % 31 Dec. 2013
1(AAAA)	46,911	22.1%	59,614	24.6%
1(AAA) – 1(A–)	102,164	48.1%	111,322	45.8%
2 – 5	39,664	18.7%	43,023	17.7%
6 – 8	11,130	5.2%	13,823	5.7%
9 – 10	5,513	2.6%	6,102	2.5%
11 – 15	2,311	1.1%	2,911	1.2%
16 – 18 (Default)[1]	2,531	1.2%	3,768	1.6%
Other	2,060	1.0%	2,246	0.9%
Total	**212,284**	**100.0%**	**242,810**	**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 portfolio quality has improved slightly, with the investment-grade share (ratings 1(AAAA) to 5) increasing to 88.9% (previous year: 88.1%). Although the sale of the guaranteed securitization portfolio reduces the 1(AAAA) portion, this is offset by the increase in good to very good credit ratings. An improvement in the portfolio quality is also reflected in the decline in critical credit ratings (rating categories 11– 15) and default holdings that have been significantly reduced, from EUR 3.8 billion to EUR 2.5 billion, and which now account for 1.2% of the portfolio, down from 1.6%.

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. The following breakdown of sectors in the company portfolio is based on the organizational back office responsibilities in a more aggregated form.

Sectors.

EUR million	Net exposure 31 Dec. 2014	CVaR 31 Dec. 2014	Default 31 Dec. 2014	Net exposure 31 Dec. 2013	CVaR 31 Dec. 2013	Default 31 Dec. 2013
Financials	**95,415**	**755**	**112**	**114,560**	**982**	**364**
of which transactions under specific state liability[1]	28,460	34	0	41,583	60	130
Companies	**70,267**	**2,589**	**2,271**	**73,891**	**2,549**	**3,215**
Automotive	10,381	325	195	9,331	420	305
Chemicals and pharmaceuticals	6,101	150	92	6,027	108	76
Commercial real estate (CRE)	6,621	442	592	8,082	458	959
Retail and consumer	8,830	286	223	8,297	174	333
Industry and construction	13,752	494	387	14,418	401	570
of which construction	5,534	233	180	5,811	213	304
Telecommunications and media	2,608	75	57	2,770	62	101
Transport and logistics	3,922	150	111	3,838	129	141
Utilities and energy	10,807	331	396	11,497	283	418
of which utilities and disposal companies	4,931	126	26	6,170	153	28
Housing	3,397	183	119	4,314	262	150
Other sectors	3,849	153	100	5,317	252	162
Public sector	**41,042**	**699**	**1**	**47,799**	**586**	**2**
Private individuals	**5,560**	**230**	**146**	**6,560**	**187**	**186**
Total	**212,284**	**4,274**	**2,531**	**242,810**	**4,304**	**3,768**

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

With a net exposure of EUR 95 billion, financials represents the largest of the four main sectors. The year-on-year drop of around EUR 19 billion results in particular from the completion of transactions with guarantor's liability. Moreover, there was a decline resulting from the sale of guaranteed and non-guaranteed securitization items as well as decreases in short-term money. The reduction in CVaR is due mainly to the lower net exposure and changes in market data.

Exposures to companies in the net exposure declined by just under EUR 4 billion to EUR 70 billion compared to the previous year. At the same time, the CVaR increased marginally due to changes in the portfolio and market data. As in the previous year, the main sector, corporates, accounted for more than half of CVaR, namely 61 % (previous year: 59 %).[1]

As in the previous year, automotive and commercial real estate sectors are the most important sectors in the portfolio. For this reason, they will continue to be monitored closely in the interests of managing sector concentrations.

Net exposure to the public sector decreased by around EUR 7 billion to EUR 41 billion. Due to the very high credit rating, this change has no significant effect on the CVaR and is also related to the sale of the guaranteed securitization portfolio as the bond issued to the guarantee company of the State of Baden-Württemberg was reduced accordingly. The CVaR increase in the remaining portfolio is due principally to a change in market interest rates.

1) The CVaR breakdown by business segment is similar – here too at 62 % (59 % as at 31 December 2013) the Corporates segment accounts for the greatest share of CVaR.

For private individuals there was a decline in net exposure. Conversely, the CVaR rose slightly as a result of changes in market data. This portfolio has a particularly high level of granularity.

Regions.

The share of German business in the net exposure increased further, amounting to approx. 76% on the reporting date. As a result of the LBBW Group's focus on the core markets in private, SME and large customer business, its function as a clearing bank for the savings banks, the run-off of exposure to foreign financial institutions and public-sector bodies outside Germany, German business will continue to account for a large part of the portfolio.

Foreign exposure is particularly spread across Western Europe and North America. By contrast, exposure to Eastern Europe, Latin America, Africa and supranationals is of only subordinate importance and results principally from export finance.

Regions.

Net exposure in %	Share 31 Dec. 2014	Share 31 Dec. 2013
Germany	75.8%	74.6%
Western Europe (excluding Germany)	15.6%	17.0%
North America	5.3%	5.2%
Asia/Pacific	1.7%	1.3%
Eastern Europe	0.8%	1.1%
Latin America	0.7%	0.8%
Africa	0.0%	0.0%
Supranationals	0.1%	0.0%
Total	**100.0%**	**100.0%**

The effects of the European sovereign debt crisis continued to subside in 2014. Reflecting this, the negative effect which it caused on portfolio quality weakened. Details on the exposure to Ireland, Italy, Portugal and Spain can be found in the Notes. In total the Group has an exposure to these countries amounting to EUR 5.4 billion (for comparison 31 December 2013: EUR 5.4 billion; all figures are based on IFRS).

The economic situation in south-eastern European countries such as Cyprus, Romania and Bulgaria was closely monitored. Given the political situation, Ukraine and Russia in particular are subjected to more intensive risk monitoring. For the aforementioned countries measures were approved to limit risks and/or measures already in place reaffirmed. However, due to the negligible size of these exposures these countries do not present any material hazards for the risk situation of the LBBW Group.

Size classes.

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

Size classes.

Net exposure	Number 31 Dec. 2014	Net exposure in % 31 Dec. 2014	Number 31 Dec. 2013	Net exposure in % 31 Dec. 2013
up to EUR 10 million	692,740	11.2%	733,788	11.1%
up to EUR 50 million	1,078	11.6%	1,234	11.3%
up to EUR 100 million	224	7.6%	222	6.6%
up to EUR 500 million	236	25.8%	253	23.0%
up to EUR 1 billion	52	17.4%	54	15.9%
over EUR 1 billion	23	26.4%	33	32.1%
Total	**694,353**	**100%**	**735,584**	**100.0%**

The size classes up to a net exposure of EUR 100 million account for 30.4% of the net exposure (previous year 29.0%). The large number of customers is due here in particular to the retail portfolio.

With shares of over 99% and 95% 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.

Net exposures of > EUR 1 billion are down from 33 to 23 names, with their share of the portfolio accordingly falling by approx. six percentage points to 26.4 %. As at the reporting date on 31 December 2014, 31 % of this size class comprised Landesbanken and savings banks (of which more than two-thirds are under guarantor's liability) and 46 % of public-sector bodies (particularly German non-central public-sector entities). The remaining 23 % was spread across banks and companies almost exclusively with very good to good credit ratings (lowest rating class 1 (A-)). The large exposures will continue to be monitored closely in terms of the management of cluster risks.

Opportunities.

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

Market price risks.
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 and as well as from share or index volatilities.

Interest rate risk.
The interest rate risk is based, for example, on changes in market interest rates, interest spreads, credit spreads or interest rate volatility.

Currency/commodity risk.
Currency / commodity risks are summarized and recorded 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
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 is derived from distributing the 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 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 equity requirement 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 confidence level and holding period are scaled to the maximum from standard VaR (covariance matrix over 250 trading days) and long-term VaR to a level adopted to economic capital. Due to regulatory requirements, a longer monitoring period of five years is taken with the long-term VaR also enable to allow for more volatile market situation. 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 its most significant 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. Furthermore, in order to calculate economic capital a premium is added for the credit spread risk from marketable 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 e.g. synthetic as well as historical market movements with a focus on modeling particular curve shift trends and spread changes. Synthetic scenarios are based mostly on selected market factor groups such as individual and combined interest rate or credit spread shifts. Historical scenarios were generated from the data analyses of market shocks. All scenarios serve the purpose of modeling extreme events on the financial markets that are not specifically included in VaR as history-based indicator.

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

The results are reported to the decision-makers 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 Stress VaR 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 value 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.

New products and further development of the risk model.

The introduction of new products aside, in 2014 the Bank made the following model adjustments following approval by the regulator:

- changeover from modeling volatility risks for interest-rate options to a standard market Volasmile model
- VaR calculation for path-dependent equity options using a valuation model with local volatility by means of finite differences

Use of an amended aggregation method to calculate the risk amount for general interest-rate and equity risks is still undergoing the approval process by the regulator.

Validation of the risk model.

For the purpose of regular quality assurance and validation, the adequacy of risk modeling and the risk factors used are reviewed regularly in addition to valuations. If certain markets and risk types become more important in the future, LBBW can flexibly expand the self-developed model.

As a general rule, however, there are limits to valuation methods. Every kind of modeling constitutes a simplification of the real situation. LBBW addresses such model risks by further analyses and limitations, as well as valuation discounts, if necessary. An appropriate amount is also included in risk-bearing capacity for model risks. Specifically, allowance is made for returns from micro issues as well as products with simplified inclusion in risk and backtesting.

The quality of the resulting VaR forecasts must be reviewed for regulatory purposes within the scope of a regular validation process conducted by an independent organizational unit. The process starts by reviewing the model design and identifying possible model risks. Subsequently through customized validation analyses the materiality of the risk model is quantified, both isolated and combined. In this context particular importance is attached to the backtesting analysis, in other words, the statistical backward comparison of the actual changes to the portfolio with the corresponding VaR forecasts. The pure valuation changes of the portfolio excluding new business and intraday results (so-called CleanP/L) are used for these changes in portfolio value.

Additional backtesting on the basis of the so-called Dirty-P/L is conducted due to regulatory requirements. Dirty-P/L is the actual change in value net of commissions and fees. It is calculated on the basis of the economic result.

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, 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 defined by the Board of Managing Directors at least once a year with consideration of 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 linked to the economic capital limit. Together with the loss-warning triggers and jointly with the sub-strategies these set the risk-related scope for action by the divisions, departments and groups of Financial Markets/International Business, the Credit Investment Portfolio division and 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.

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 principles for assuming risks. The requirements for proactive management of the material LBBW portfolios are documented in the portfolio descriptions, following on from the market price risk strategy.

Risk situation of the LBBW Group.

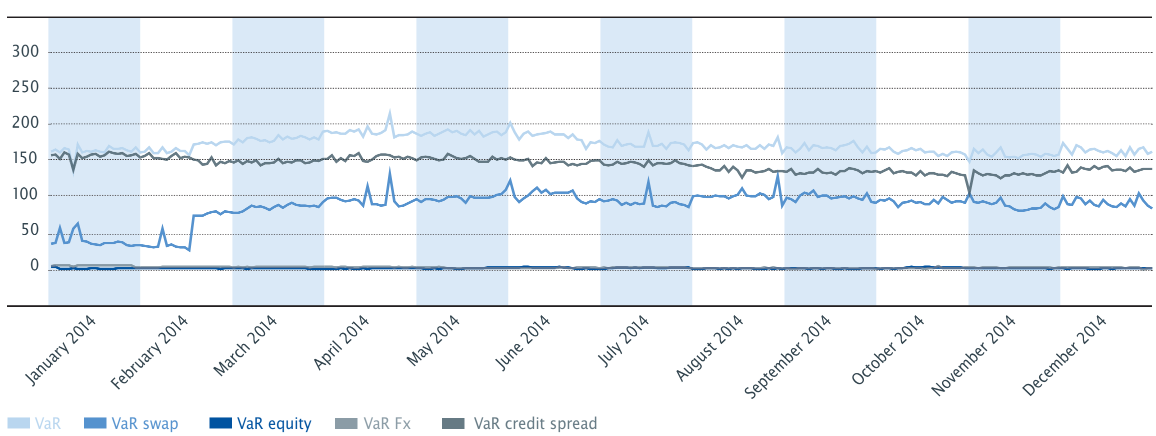
Development of market price risks.

Exposure to market price risks in 2014 was always in accordance with the risk-bearing capacity of the LBBW Group. The risk limit was not exceeded in 2014 for the individual Group entities either. The same applies to the limits for the corresponding division and department portfolios. The loss warning trigger was not breached either for any material portfolio in 2014.

LBBW's market price risks are generally characterized by interest rate risk and the credit spread risks contained therein. 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 portfolio of non-core business now plays a subordinate role due to the wind-down of positions. The basis risks in the interest area between individual European sovereign and financial curves and the swap curve, as well as the exposure to credit spreads including the risks from fixed-income securities, credit derivatives and the credit substitute business, 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.

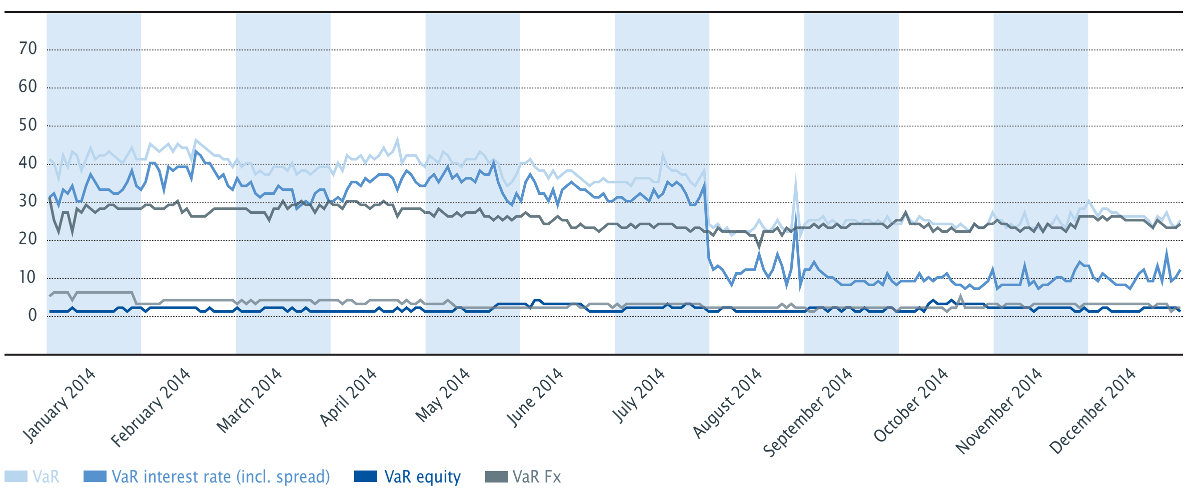
EUR million	Average	Maximum	Minimum	30 Dec. 2014[1]	30 Dec. 2013
LBBW Group	**175**	**218**	**137**	**165**	**171**
Swap risk	89	134	28	86	60
Credit spread risk	147	165	108	141	160
Equity risks	3	5	2	2	5
Currency risks[2]	4	7	1	3	6

1) The last reporting date in the 2014 financial year was 30 December 2014.
2) incl. commodity risks.

In 2014 the LBBW Group's market price risk decreased. Contributory factors here were the almost complete sale of the non-guaranteed part of the credit substitute business and the introduction of enhancement in the risk model approved by the regulator.

For the trading book the VaR developed as follows in 2014:

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



VaR 99 %/10 days.

EUR million	Average	Maximum	Minimum	30 Dec. 2014[1]	30 Dec. 2013
LBBW (Bank) trading book	**34**	**47**	**22**	**26**	**41**
Swap risk	25	44	8	13	32
Credit spread risk	26	32	19	25	32
Equity risks	3	5	2	2	2
Currency risks	4	7	2	3	6

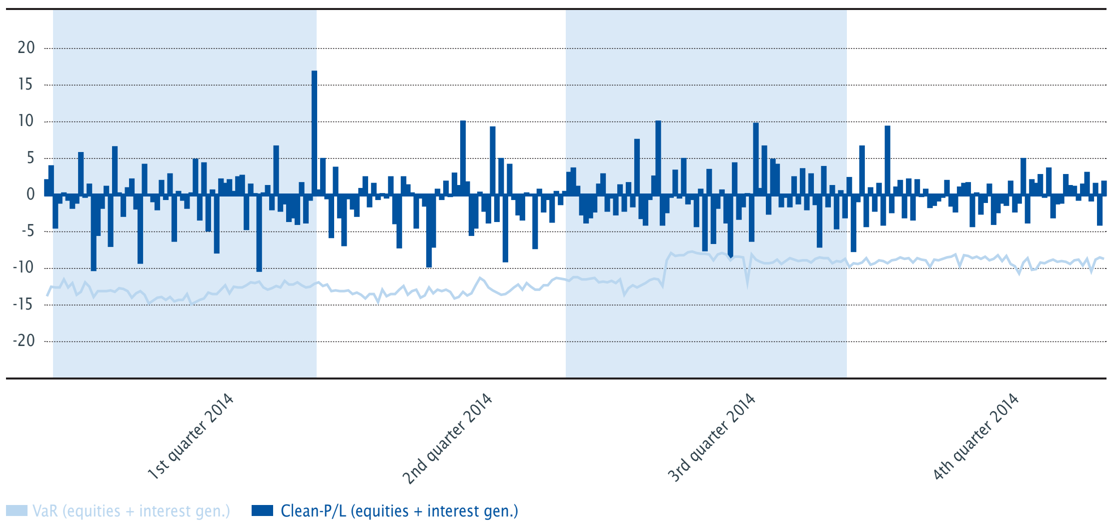
1) The last reporting date in the 2014 financial year was 30 December 2014.

The LBBW trading book contains the positions of the Financial Markets segment and of Treasury, which are used for short-term liquidity management. The decline in risk is attributable mainly to the derivatives portfolios. This reflects the introduction of enhancement in the risk model approved by the regulator.

Backtesting result.

Backtesting SolvV portfolio for the period 27 December 2013 – 30 December 2014.

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



Up to and including the last reporting date of 30 December 2014, the internal risk model shows no outliers for the CleanP/L for the preceding 250 trading days in the CRR portfolio.

Due to strong movements on the market (widening of bond and CDS spreads, swap rates, forex rates and interest-rate volatilities), one outlier was recorded for the last 250 trading days for the LBBW Group, the banking book and the trading book.

As for DirtyP/L, one outlier was recorded for 2014 both for the CRR-relevant portfolio and for the trading book. The outlier was caused by a non-periodical earnings component after a curve change in the valuation system. No conclusions can therefore be drawn in terms of inadequate forecasting quality in the internal model.

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

Stress test.

In the adverse case scenario the stress test values rose significantly due to a new scenario introduced in 2014, which reflects an inverse increase in the interest rate curves.

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 2014.

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 swaps. 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. When the exogenous risk is calculated, the volatility of the bid-ask spread is included. 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, swaps and equities. As at 30 December 2014 the market liquidity risk calculated using this model stood at EUR 348 million and had decreased slightly, by EUR 15 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 under current situation has a positive effect of the LBBW Group result. The extent of this effect depends on the volume of the LBBW Group's positions.

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	▪ Daily calculation of the liquidity gap and funding potential via central banks ▪ Monthly preparation of a liquidity flow analysis to assess structural liquidity ▪ Regular quantification of all material call risks ▪ Stress tests ▪ Analysis of investor base via investor lists
Risk monitoring and reporting	▪ Detailed daily reports of the liquidity gaps per location and currency and of liquidity reserves ▪ 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 gap limits 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:

- Creating liquidity gaps to the day in all currencies for LBBW (Bank) on a daily basis and to the day twice a week for the LBBW Group.
- Calculating the potential funding available from central banks on a daily basis on the target date and over time.
- 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 regular quantifying of all material call risks.
- Stress tests conducted on a weekly and monthly basis, and as required. Ongoing review and, if necessary, adjustment of assumptions and parameters used.

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 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.

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

All key subsidiaries as defined in the risk inventory and all conduits/SIVs are included in regular reporting of liquidity risks in accordance with LBBW guidelines. The liquidity risks for subsidiaries and affiliates are dealt with in the same way as at LBBW (Bank).

Risk monitoring and reporting.

The regular monitoring of liquidity risks is the responsibility of the Risk Committee at the management level, while Liquidity Risk Control within the Group Risk Control division 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 reserves 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. The Risk Committee monitors the risk adequacy of methods to calculate the internal fund transfer pricing.

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 2014, 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.

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.

A detailed 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. It is intended to review the emergency plan at least once a year and have it resolved anew by the Board of Managing Directors.

Risk situation of the LBBW Group.

The LBBW Group's liquidity situation was always comfortable during 2014. The following factors again contributed to the good liquidity situation:

- The stable customer deposit business.
- The release of liquidity through the run-off of the credit substitute business.

Over a period of three and twelve months the funding requirements from existing business were always covered by available liquidity reserves. This was also true if material call risks and the funding potential on the market were added.

Overview of funding requirement and liquidity reserves.

EUR billion as at 31 Dec. 2014	3 months	12 months
Funding requirement from the business portfolio (deterministic cash flow)	18.6	14.5
Material call risks (stochastic cash flow)	15.0	35.7
Free liquidity reserves	23.6	29.7
Funding potential in the market	34.3	38.2

The solvency of LBBW Group was guaranteed at all times for a three-month period even on the basis of severe stress scenarios. 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 reserves, exceeds the potential funding requirement under stress scenarios for this period.

Results of the economic stress scenarios.

Scenario EUR billion as at 31 Dec. 2014	Funding requirement	Funding potential (central banks and market)
Rating downgrade	35.3	48.7
Financial market crisis	35.2	57.1
Market crisis with downgrade	35.5	53.6

There were no breaches of any limits or other guidelines pursuant to liquidity risk tolerance in 2014. The liquidity reserves were adequate at all times to compensate for any substantial, short-term liquidity outflows. LBBW did not have to use the central bank liquidity facilities to cover its funding requirements in 2014.

The requirements of the standard approach of the Liquidity Regulation (Liquiditätsverordnung) were at all times exceeded significantly in the year under review. As at 31 December 2014, the liquidity ratio for LBBW was 1.34 (31 December 2013: 1.47). There is no corresponding indicator at the Group level as this indicator is disclosed to the regulatory authorities at a single-entity level.

Opportunities.

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

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. All requirements were met at all times in 2014. The risk management system is reviewed at least annually.

Operational risks.

Definition.

LBBW defines operational risks as the risk of losses arising due to the unsuitability or failure of internal processes and systems, people, or due to external events. In each of the aforementioned risk categories legal risks can lead to losses. 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.

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 ▪ Reporting ▪ Risk situation
Risk management	▪ Observing the specifications set for the operational risk strategy ▪ Action strategies ▪ Response management

Risk measurement.

The standard approach is used to calculate regulatory capital requirements at LBBW. 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 the 2014 financial year various fundamental changes were made in the model in the course of a review. Model cells were consolidated. The loss-based model was separated from the results from the scenario analyses and subsequently combined, producing weighted models. Conservative methods were used to model the correlations.

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.

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 Group companies.

The central parameters for handling operational risks are anchored in the risk strategy and policy for operational risks as well as in the work rules. Here the risk strategy and policy regulate the risk profile of the LBBW Group, the principles of the risk culture as well as the risk management and controlling process with regard to operational 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. The central link-up point for all management and controlling instruments 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 are very important. They support division management and managing directors in the use of operational risk controlling tools and the reporting system, serve as contacts for their respective employees regarding operational risks, and are in close contact with LBBW's centralized OpRisk Controlling unit.

Various methods and tools are used to identify and assess the risk situation. In addition to the internal and external incident 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 with the aim of conducting division-specific analyses and obtaining wide-ranging information of relevance to management. The most important risks detected in the course of the self-assessments are aggregated in the scenario analysis using standard scenarios; they are then analyzed extensively and measures for reducing the risks are collected. This forms the basis for drawing up and implementing measures to reduce these risks. This methodology has been rolled out in all business units and principal subsidiaries of the LBBW Group. The results of the scenario analyses are used in the OpVaR model. In addition, risk indicators are regularly recorded and reported.

OpRisk measure management plays a key role in managing operational risks. They are managed proactively by the divisions and Group companies on the basis of the risk strategy for operational risks. Four action strategy options are available for handling operational risks: avoid, transfer, reduce or accept risks. The measure management implemented, the internal control system and an open risk culture play an important role when it comes to determining which option is to be chosen. A key role in avoiding operational risks is played by the sensitivity to risks of all staff members and the handling of risks in an open manner. 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. Emergency concepts and business continuation plans 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. The Risk Committee also supports the Board of Managing Directors in exercising its supervisory function.

Risk situation of the LBBW Group.

Exposure to operational risks in 2014 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.

The 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 divisions. In relation to this, LBBW is supported by the cooperation of the German Savings Bank Association (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 Bank Association (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. The case law trend mentioned remains relevant for LBBW as well, especially as this has not yet resulted in any consistent ruling.

Current trends in consumer law are also subject to ongoing case law developments. As an example of this, in the 2014 financial year new rulings by the German Supreme Court on loan agreements with consumers, lists of prices and services or rulings by the courts regarding investment advisory services had to be assessed for their relevance for LBBW.

It is to be expected that this development of the law on various topics will continue in the future. 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 by continuously monitoring the law.

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. As a result, IT security is also becoming increasingly important. In line with this increasing importance LBBW operates an Information Security Management System (ISMS) based on international standard ISO 27001 and is continuously further developing the ISMS. Threats and risks resulting are combated using a wide variety of security measures with a view to reducing them to an acceptable level.

IT risk management was also systematically further developed in a structured manner in 2014. The risk analysis instrument was consistently applied. This made it possible to identify and evaluate the top risks in the context of LBBW's authorization management as well as threats from the Internet (cyber threats) for LBBW's IT security infrastructure, and to suggest corresponding risk strategies (measures). In this context in 2014 a pre-study of log and event management was started as a risk-minimizing measure in order to move from an ex post to an ex ante view. The objective here is to introduce a Security Information and Event Management System (SIEM) in 2015 in order to be able collect and analyze data and to react effectively in the event of irregularities with the aid of suitable and appropriate procedures, processes and IT systems. Risk analyses are to be applied to a greater extent in future in order to ensure adequate and consistent IT risk management for LBBW.

Together with selected specialized divisions, guidelines were drawn up and on this basis a methodology developed to evaluate the criticality of different IT systems and make practical use of this evaluation as the basis for risk-based measures.

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

Controlling and monitoring processes have been established and further refined especially against the backdrop of services being provided by outside providers. New and improved risk indicators were developed with the aim of identifying IT risks in the context of IT outsourcing faster and better with a view to introducing corresponding measures.

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. Since 2014, the IT crisis management manual, the IT crisis rooms and key positions have been reviewed on an annual basis.

The IT service providers have emergency plans in place for operating IT systems in an emergency; these are reviewed in regular exercises. In the context of the general Business Continuity Management of LBBW, IT emergency plans are compared against the requirements of the business continuity plans of the specialized divisions.

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.

Opportunities.

At LBBW the interfaces between the divisions exposed to operational risks (e.g. Information Technology, Compliance, Auditing, BCM) are additionally extended and optimized. At the same time, cooperation with the local OpRisk managers is being intensified to ensure a coordinated and uniform approach to handling operational risks. In addition, various committees are engaged in a regular exchange of ideas. Furthermore, the processes relating to legal risks, new products or outsourcing are regularly monitored and further developed. The extension of risk indicators and extensive reporting makes it possible to react more rapidly to unwanted developments. These measure help to constantly improve the risk situation.

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 jours 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 of holding regular coordination meetings at the corresponding specialist levels of LBBW and the strategically important subsidiaries. The management and monitoring at the level of these subsidiaries are 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 whose risk potential is classified as material from a Group point of view.
- Non-material subsidiaries, i.e. companies whose risk potential is classified as immaterial from a Group point of view.

As far as possible, material subsidiaries are treated in line with the transparency principle. In accordance with the transparency principle, types of risk identified as material at the respective companies are measured according to the principles and parameters of LBBW, and included at the level of the LBBW Group in an aggregation assessment. This applies specifically to the risk types of credit, market price, real estate and development risk.

In the case of non-material and material subsidiaries, where only the liquidity and/or operational risks are material, 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 LBBW's non-material subsidiaries 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 in accordance with the guidelines issued by the Institute of Public Auditors in Germany (Institut der Wirtschaftsprüfer in Deutschland e. V. – IDW) at least once a year 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.

In addition, liability risks arise from the profit/loss transfer agreements entered into with a number of subsidiaries. Furthermore, LBBW has signed letters of comfort with various subsidiaries. LBBW still has guarantor's liability and maintenance obligation with respect to former equity investments in public-sector companies.

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.

LBBW continues to make good progress in reducing the investment portfolio: in 2014 LBBW Bank CZ and shares in Südwestdeutsche Salzwerke AG, were sold, among other things. Furthermore, in May 2014 LBBW Luxemburg S.A. was merged with LBBW. Moreover, the number of smaller equity investments was reduced further in accordance with the new business strategy. Further investments are to be sold off step by step in 2015 too as part of the realignment.

Opportunities.

Generally speaking, LBBW's strategic equity investments and subsidiaries offer an opportunity to optimally exploit market potential and thereby strengthen LBBW's market position vis-a-vis target customers and core markets as well as an opportunity to optimally exploit existing value potential and an adequate return on capital (dividends/payouts).

The portfolio of equity investments is being reduced as part of the realignment process. The sale of subsidiaries and equity investments at Group level makes it possible to generate income for LBBW, depending on the respective market situation and given appropriate investor demand. Furthermore such sales revamp the portfolio of equity investments, thereby reducing its complexity.

Reputation risks, business risks and pension 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.

As regards reputation risks, a distinction is made between transaction-based and non-transaction-based management. In non-transaction-based management, Communications/Marketing/General Secretary is responsible in particular for ensuring controlled public and press relations.

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 der LBBW are avoided. The sustainability policy formulated in the LBBW Group is to 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. This is therefore shown in particular in lower commission income or net interest spreads as well as in increased costs.

Among other things, business risk may be caused by changes in customer behavior or changes to the economic environment that are not of a legal nature. Business performance risk can be caused by lower income due to possible strategic misjudgments. If LBBW does not adapt to changed conditions in a timely manner, these may have a negative effect in 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 pension risk entails the possible need to increase pension provisions on account of heightened expected pension expense, and in particular, valuation effects. This may particularly be caused by changes in interest rates, pensions and salaries. Pension risks are quantified by means of scenario analyses on the basis of an actuarial report. The negative trend of the underlying sensitivities here is responsible for the corresponding increase. Rising interest rates will provide LBBW with an opportunity of falling pension provisions with 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.

Reputation risks, business risks and pension risks are taken into account within the scope of the risk-bearing capacity. They are quantified by means of expert-based approximation procedures and scenario-based investigations.

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 by the LBBW Immobilien Group.

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, property and facility 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. Diversification in terms of macro-location is limited as the remainder of the commercial portfolio is predominantly located in Stuttgart. However, this is a stable market with relatively low rent fluctuations overall. What is more, 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. The purchase of a real estate portfolio in Munich will result in a reduction of Stuttgart's share of the commercial real estate portfolio in the coming financial year. Overall, macro-location risks are therefore considered to be manageable.

The commercial properties in LBBW's portfolio are reviewed using a comprehensive set of real-estate-relevant criteria such as, for example, the cost/income ratio, risk aspects, the Group's strategy for use/growth, the site's potential for development, portfolio diversification or use by the Group, and appropriate solutions are found on a case-by-case basis.

The customer in owner-occupied real estate business is LBBW. 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.

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 forecast return not being generated, the invested capital not being recovered 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 Baden-Württemberg, Rhineland-Palatinate, the Rhine Main region, Munich and Berlin. The 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 have largely been completed. The new projects are running on schedule and there is no evidence at present of any material risks.

The 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.

Events after the reporting date.

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

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 (incl. the protection of assets as well as the prevention and discovery of any 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.

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 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 the steering instruments.

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 incorporated 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 Consolidated Financial Statements group.

The consolidated financial statements are prepared in accordance with IFRS and take into account the standard recognition 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 into 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. HGB/IFRS 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 Basic Accounting Issues/NPP (new product process) group identifies and analyzes 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 are examined in detail in the Bank's New Product Process and in the Group companies with regard to their treatment according to statutory accounting rules. 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 Basic Accounting Issues/NPP group determines how they should be treated according to statutory accounting rules.

The Consolidated Financial Statements 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 Consolidated Financial Statements 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). This 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 strongly decentralized responsibility of the specialized divisions for essential accounting-relevant processes. An ICS records office has been established in Accounting 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 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 economy in 2015 should see a continuously robust trend. The momentum of the global economy is likely to see marginal improvements. Gross domestic product (GDP) should climb by 3.7% versus 2014. With the exception of China and Russia, a recovery is expected in most regions. India, in contrast, should see its GDP increase to 6.3% according to a forecast by the International Monetary Fund, while Brazil's GDP will improve by 0.3%. Most of the leading economic indicators have risen as at the end of 2014 and point to sustained or accelerated growth. GDP in the US will rise by 3.2% in LBBW's view; this is a stronger increase than in the previous year at 2.5%. In addition to the low interest rates, the economy will likely also get a boost from stepped-up fiscal measures and the relief that the low crude oil prices and higher employment rates offer private consumers.

The pace of growth in the eurozone is still moderate, but an improvement should also be felt here. Given the tailwind provided by the ECB's expansionary monetary policy, the drop in the price of oil and the weak euro, GDP growth should come to 1.2%. Inflation will remain low, and at 0.2% will even fall short of the 2014 figure (0.5%).

Germany's prospects can be regarded as favorable overall. Its economy is likely to continue benefiting from private consumer spending. Furthermore, German industry features favorable export opportunities in light of the robust global economy and the most recent depreciation of the euro on foreign exchange markets. All in all, LBBW anticipates a 1.8% rise in real GDP. Of this, 0.2 percentage points can be traced back to the calendar effect, as 2015 will have more working days than the previous year. Roughly 0.5 percentage points can be attributed to the statistical overhang resulting from the growth of the previous year. A stronger upturn is being prevented by economic policy positions which, with the »pension at 63« plans, are contributing to the shortage of skills. The introduction of a minimum wage should also gradually curb growth in some sectors and regions.

LBBW does not expect the eurozone economy to slip into a deflation spiral as seen in Japan in the 1990s. The surge in prices will continue to be subdued in part by the sharp drop in the price of crude oil in 2015. As soon as the relief felt from the oil price decline is over, however, the rate of inflation will gradually pick up again. Inflation in the eurozone should come to 0.2% on average for the year. For Germany, LBBW anticipates a 0.6% increase in consumer prices.

Interest rates are expected to remain low in 2015. The ECB is likely to leave its main refinancing rate unchanged at 0.05% in 2015 and will begin buying up government bonds. Taking these policies as a basis, yields are expected to stay at their low levels. LBBW expects to see the monetary policy in the US tightened, which it believes will cause a moderate rise in yields on both sides of the Atlantic starting in the second quarter of 2015. LBBW expects a yield of 1.00% for 10-year Bunds by the end of 2015. US Treasuries at that time will offer a return of 2.90% according to LBBW's forecast.

Industry and competitive situation.

For 2015, LBBW expects to see the competitive intensity of the German banking market to remain high and the low interest level to continue weighing on institutions. Coping with and adapting to the many regulatory changes will continue to present a considerable challenge for the industry and will drive up costs. Banks are also expected to continue facing legal risks. Institutions will remain under a great deal of pressure to operate efficiently given the continuously tense earnings and cost situation expected as a result. Unclear regulatory proposals and the fact that the debt crisis in the eurozone has yet to be overcome mean uncertainty and risks for the development of the sector.

Looking at significant regulatory changes, institutions will gradually be subject to stricter requirements under CRR/CRD IV until the end of the transitional rules in 2019. The Basel Committee on Banking Supervision is already preparing additional requirements.

In the context of the banking union, German institutions together with their French counterparts will probably have to make the largest contribution to filling the joint resolution fund in the eurozone when considering the now stipulated rules for collecting contributions as from 2015. With a target volume of around EUR 55 billion in 2024, the German banks are expected to face fees totaling more than EUR 15 billion. The bail-in regulation, i.e. loss participation on the part of owners and creditors in the event of a resolution (which is another central component of the new resolution mechanism), will also come into effect in Germany as early as 2015. In connection with this, the MREL figure (minimum requirement for own funds and eligible liabilities) to be developed on an EU level is expected to grow in significance and could potentially influence financial institutions' funding structures. Moreover, it is starting to appear as though the ECB's new supervisory regime will not only cause additional costs to be borne by the banks but will also lead to changes in supervisory practice that will probably entail more requirements and greater uncertainty for institutions. The European Deposit Guarantee Directive could also mean that adjustments will have to be made.

In addition to the amendment to the Markets in Financial Instruments Directive and Regulation (MiFID II/MiFIR), the requirements of which institutions will probably have to meet by the beginning of 2017, other initiatives are being planned or implemented in consumer and investor protection on both a national and a European level. Changes are foreseeable also within the general conditions for payment transactions, with European legislators capping interbank fees on card-based payment transactions as well as the current discussions of opening up the market for third-party suppliers within the framework of the Payment Services Directive being revised. Beyond the banking union the European Commission would also like to create a European capital markets union within the next five years. The details of this new project remain to be seen. There is still the issue of an introduction of the financial transaction tax targeted jointly by some EU states. The sector also finds itself confronted with various dual banking system regulations. The legislation creating a dual banking system in the US, called the Volcker Rule, was adopted starting in July 2015 and Germany's equivalent will take effect in July 2016, yet plans to introduce such a system in the EU remain open.

Company forecast.

General conditions.

The following forecast is based on LBBW's planning produced at the end of 2014. It assumes a historically low interest level and stable economic situation with moderate GDP growth in Germany over the forecasting period. Growth is also assumed for the eurozone, but this should prove more subdued than in Germany. Looking at the regulatory plans, LBBW does not expect to see any fundamental changes, but 2015 will be characterized by the implementation of stricter regulatory requirements and a swift reaction to the changes in general conditions that they will entail.

Outlook for LBBW.

LBBW will continue to be a reliable, safe partner to its customers in 2015 thanks to its solid capitalization. The focus is still on building and enhancing sustainable customer relations and risk-conscious growth, especially by intensifying cooperation with customers. The challenges likely to be faced in 2015 will again be low interest rates, rising competitive pressure and a further tightening of regulatory requirements. Nonetheless, LBBW will press ahead with the continuous development of its processes and products for the sake of its customers in 2015. In doing so, it aims to tap into the existing potential as much as possible and to become more efficient. The IT architecture will also be restructured against this backdrop.

The most significant financial performance indicators for LBBW will likely develop as follows in the 2015 financial year at Group level, in comparison with the previous year:

Together with the reduction of risk weighted assets in the course of the restructuring into a pure customer-oriented bank, the common equity Tier 1 capital ratio (CET 1) improved to 13.6 % at year-end 2014, taking into considering the full implementation of CRR/CRD IV (fully loaded). In addition, the total capital ratio remained virtually unchanged at 18.9 %. Based on the current forecast, LBBW is expected to achieve a CET 1 capital ratio in 2015 marginally above the 2014 level despite a marginal increase in risk weighted assets. This is well in excess of the 4.5 % required by CRR/CRD IV. For the total capital ratio, a figure just below the previous year's level is assumed. Like all institutions under ECB supervision, LBBW must meet capital requirements specific to each institution starting in 2015. These individual requirements exceed the statutory provisions set out in the CRR. Following LBBW's comments, they are currently under review by the ECB and are due to take their final form in the next few weeks. The range mentioned to date is already covered by the Bank's capital planning and is expected to be exceeded significantly by the end of 2015. In addition to the regulatory capital requirements, economic capital management also plays an important role at LBBW. With regard to utilization of the aggregate risk cover, the 2015 rate is expected to be the same as in the previous year (2014: 55 %), which is a comfortable risk-bearing capacity. LBBW will thus meet its goal of ensuring a sustainable capacity to bear risks.

Another reduction in total assets versus the previous year to around EUR 266 billion was realized in 2014. The reduction was in part due to the nearly complete scaling back of the non-core business, especially through the full sale of the share guaranteed by the owners of LBBW. Given the further gradual reduction of the non-core business and the planned expansion of core activities, total assets for the LBBW Group at year-end 2015 should remain at the 2014 level. With regard to the leverage ratio, a regulatory figure independent of risk, LBBW expects a value at the end of 2015 at the previous year's level of over 4 %. This is far above the minimum 3 % stipulated by the Basel Committee.

LBBW's net consolidated profit/loss before tax in the 2014 financial year at EUR 477 million marginally exceeds the previous year's result despite the challenging market environment. Another moderate rise is anticipated in 2015, unless any unforeseen market turbulence or a surprisingly strong economic downturn were to materialize. For 2015 LBBW assumes a noticeable increase in earnings in the core markets and growth markets as well as in attractive economic locations that are just being opened up. Despite the economic growth expected, a considerable rise in allowances for losses on loans and advances versus the previous year was included in the forecast. The relatively low level in 2014 is a result of higher reversals of allowances for losses on loans and advances set aside than in the previous year. This also reflects the improvement in the quality of the portfolio.

LBBW's stringent cost management is expected to keep administrative expenses at the previous year's level in 2015 and cause the cost/income ratio to fall slightly as a result of the earnings increase. This will come in spite of higher burdens from regulatory requirements and the bank levy as well as expenditures for the restructuring of the IT infrastructure.

Possible key risks to LBBW's planned performance in the 2015 financial year lie in unexpected tightening of regulations or legal provisions, the fact that the debt crisis in the eurozone has yet to be overcome or an unexpected trend of market parameters such as interest rates remaining low for a period longer than planned. Despite the likely pick-up in the economy, geopolitical risks such as the situation in Russia and Ukraine also present a threat to the economic performance.

On the other hand, there is a chance that LBBW will beat its planned result in the 2015 financial year. The adjustment of internal processes, further expansion of the customer-driven business and improved market position as a result could pay off sooner than expected and have a correspondingly positive effect on the result. If the economic performance also turns out better than expected, allowances for losses on loans and advances could be lower than assumed and risk weighted assets could remain below the planned figure.

At segment level, LBBW predicts the following developments for the 2015 financial year in comparison with 2014. While the operating segments are expected to make a noticeably positive contribution to earnings, it is anticipated that the Credit Investment segment will improve, but nonetheless make another loss.

In the Corporates segment, LBBW expects a perceptible rise in total assets due to the path of growth it is now on. If exposure is chosen in a selective, risk-oriented manner, this will likely lead to a merely moderate rise in risk weighted assets in accordance with CRR/CRD IV (fully loaded). Because the segment benefited from income in the investment business in 2014, the forecast net profit/loss before tax in 2015 should remain well below the previous year's figure despite the growth. Allowances for losses on loans and advances sizably in excess of the previous year's figure are also assumed for the 2015 financial year within the scope of the planning. Moreover, administrative expenses are expected to rise moderately due to the expansion of the market share in existing core regions and growth markets, which will contribute to the sustainable development of net consolidated profit/loss. The segment is likely to see a cost/income ratio in 2015 slightly above the previous year's figure.

Total assets for the Retail/Savings Banks segment should remain almost unchanged from the previous year. Based on the planned approval of further internal rating procedures, however, the segment anticipates a sharp reduction in risk weighted assets pursuant to CRR/CRD IV (fully loaded). As for net profit/loss before tax, a considerably lower level is planned in the same period than in 2014. This should largely be based on one-off expenses incurred from consolidating IT systems and the moderate rise in administrative expenses as a result. The result for 2015 will be a cost/income ratio slightly above the figure from the same period last year.

In the Financial Markets segment, LBBW is forecasting a marked increase in net profit/loss before tax compared to the 2014 financial year. This increase is expected to result, in particular, from a perceptible rise in income, driven by the stringent alignment of organization, control logic and product portfolio to customer needs, and should be accompanied by a moderate rise in administrative expenses. Accordingly, LBBW expects to see the cost/income ratio improve slightly. The Bank anticipates a noticeable rise in risk weighted assets in the 2015 financial year according to CRR/CRD IV (fully loaded). At the same time, total assets are expected to climb no more than slightly due to the expected interest rate trend.

Following another winding-down of portfolio assets, not least as a result of the full sale of the guarantee portfolio worth EUR 4.7 billion in August 2014, the Credit Investment segment will be characterized in 2015 by the further run-off of the remaining Sealink portfolio. In light of this reduction, the burden from the fee for the guarantee of LBBW's owners will be significantly lower. As a result, the Bank expects another strong decline in total assets for this segment by the end of 2015. In addition, the risk weighted assets pursuant to CRR/CRD IV (fully loaded) from the non-guaranteed share of the portfolio that is also maturing should be reduced substantially. On a segment level, a net loss before tax is anticipated overall for the 2015 financial year, although this figure should be measurably lower than in the previous year.
Taking the servicing of hybrid capital into account, LBBW (Bank) projects a net profit before tax (in accordance with the HGB) in its single-entity annual financial statements for the whole of 2015 that will significantly surpass the previous year's figure.

Despite the greater competitive intensity of the markets, lower interest rates and stricter regulatory requirements, LBBW sees itself well-positioned going forward, as evidenced not least by its solid capitalization. In the future the Bank will continue to take advantage of the sound market position it achieved after successfully completing its restructuring and tap into the existing potential as much as possible. With this end in mind, it will go to great lengths in the coming years to restructure its IT architecture, among other things. Its customer base, which is broad and to be expanded further, in particular regionally, will continue to have a reliable and safe partner in LBBW.

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

Results of operations, net assets and financial position.

Business development in 2014.

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.

In the past 2014 financial year, LBBW again found itself in a market environment considered challenging for banks. This continued to be marked by persistently low interest levels, intense competition on the German banking market, restrained demand for loans due to the sound liquidity situation of companies and another step-up of regulatory requirements.

Under the prevailing general conditions, the non-core banking business was almost entirely scaled back through the sale of the guarantee portfolio. Following this important step and the restructuring that has already been completed, the Bank believes its broad customer base puts it in a good position going forward. Against this backdrop, LBBW (Bank) generated a very solid result in the past financial year with a EUR 241 million increase in its **unappropriated profit** to EUR 313 million compared with the previous year.

Net profit before tax and hybrid capital servicing remained well below the previous year's level (EUR 531 million) at EUR 424 million (cf. Table 2). Allowances for losses on loans and advances were reduced markedly from the previous year in LBBW's core markets thanks to the good economic situation. It was strained, however, by a substantial drop in total operating income/expenses from the trading portfolio and an increase in administrative expenses, which rose not least as a result of spending to meet regulatory requirements (which was extremely high and rose further in comparison with the previous year).

Net profit before tax and hybrid capital servicing came in slightly lower than **planned** in the 2014 financial year. Although the planned operating income before allowances for losses on loans and advances and remeasurement were undershot, in part significantly, allowances for losses on loans and advances and remeasurement gains/losses were better than planned, meaning the planned result was almost reached on the whole. Net profit for the year before tax and after hybrid servicing substantially exceeded the previous year's figure.

LBBW's **business volume** fell by – 11.4% or EUR – 36.5 billion in the financial year to EUR 283.1 billion. This was largely attributable to the further reduction of non-core banking activities in particular (including the complete sale of the guarantee portfolio and large parts of other credit substitute business) as well as the net presentation of bilateral OTC derivatives carried out for the first time in the year under review. In non-trading transactions, loans and advances to banks also decreased. The lending business with customers, in contrast, was expanded. On the whole, lending was focused on core business fields and the savings banks as affiliated partners as part of gearing LBBW's business model to the needs of customers.

In line with the new equity rules pursuant to CRR/CRD IV, the Bank's **common equity Tier 1 ratio** came to 17.6% and the **total ratio** amounted to 23.8% after taking into account the transitional provisions.

The **financial position** of LBBW (Bank) throughout the entire reporting year was satisfactory given the good liquidity. In addition to its classic funding opportunities provided by the money and capital markets, LBBW has at its disposal other funding options as offered by the central banks. LBBW was therefore able to obtain funding on the requisite scale via the market at all times. The lower funding requirement resulted in a reduction of the liabilities on the balance sheet due to the run-off of some portfolios on the asset side in keeping with the strategy.
Reported equity was reduced to EUR 14.8 billion as at the balance sheet date (previous year: EUR 15.6 billion). This was largely due to the scheduled repayment of silent partners' contributions recognized as subscribed capital to the owners in the amount of EUR – 1 billion. Unappropriated profit, in contrast, climbed by EUR 0.2 billion over the previous year.

The **liquidity ratio** as per LiqV totaled 1.34 as at 31 December 2014 (previous year: 1.47) and therefore easily exceeded the minimum requirement of 1.0.

Results of operations.

Table 1: Results of operations (incl. current, and completing missed, hybrid capital servicing)

	1 Jan. 2014 – 31 Dec. 2014 EUR million	1 Jan. 2013 – 31 Dec. 2013 EUR million	Change EUR million	in %
Net interest income	1,754	1,635	119	7.3
of which current hybrid servicing	– 26	– 31	5	– 16.9
of which completing missed hybrid servicing	0	– 59	59	– 100.0
Net fee and commission income	224	177	47	26.7
Net fee and commission income without guarantee commission	415	470	– 55	– 11.6
Guarantee commission for the State of Baden-Württemberg	– 191	– 293	102	– 34.7
Total operating income/expenses from the trading portfolio	72	276	– 204	– 73.9
Administrative expenses[1]	– 1,604	– 1,474	– 130	8.8
Other operating income/expenses	50	3	47	> 100
Operating income before allowances for losses on loans and advances/remeasurement gain or loss	**496**	**617**	**– 121**	**– 19.6**
Allowances for losses on loans and advances/remeasurement gain or loss	– 72	– 199	127	– 63.7
Operating income/expenses (result from ordinary business activities)	**423**	**419**	**4**	**1.1**
Extraordinary result	– 25	23	– 48	-
Partial profit transfer	– 66	– 293	227	– 77.4
of which current hybrid servicing	– 66	– 112	46	– 41.0
of which completing missed hybrid servicing	0	– 181	181	– 100.0
Net profit/loss for the year before tax	**333**	**149**	**184**	**> 100**
Income tax	– 20	– 77	57	– 74.0
Net profit/loss for the year after tax	**313**	**72**	**241**	**> 100**
Unappropriated profit/loss	**313**	**72**	**241**	**> 100**

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.

Table 2: Results of operations (before current, and completing past, hybrid capital servicing)

	1 Jan. 2014 – 31 Dec. 2014 EUR million	1 Jan. 2013 – 31 Dec. 2013 EUR million	Change EUR million	in %
Net interest income	1,780	1,725	55	3.2
Net fee and commission income	224	177	47	26.7
Net fee and commission income without guarantee commission	415	470	– 55	– 11.7
Guarantee commission for the State of Baden-Württemberg	– 191	– 293	102	– 34.8
Total operating income/expenses from the trading portfolio	72	276	– 204	– 74.1
Administrative expenses[1]	– 1,604	– 1,474	– 131	8.9
Other operating income/expenses	50	3	47	> 100
Operating income before allowances for losses on loans and advances/remeasurement gain or loss	**521**	**707**	**– 186**	**– 26.3**
Allowances for losses on loans and advances/remeasurement gain or loss	– 72	– 199	126	– 63.6
Operating income/expenses (result from ordinary business activities)	**449**	**509**	**– 60**	**– 11.8**
Extraordinary result	– 25	23	– 48	-
Net profit/loss for the year before tax and hybrid servicing	**424**	**531**	**– 108**	**– 20.2**
Income tax	– 20	– 77	57	– 74.2
Net profit/loss for the year after tax and before hybrid servicing	404	454	– 50	– 11.1
Completing missed interest payments for hybrid servicing	0	– 239	239	– 100.0
Current hybrid capital servicing	– 91	– 143	52	– 36.4
Unappropriated profit/loss	**313**	**72**	**241**	**> 100**

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.

The following notes are based on table 2.

Net interest income at LBBW (Bank) increased marginally in the past financial year by EUR 55 million to EUR 1,780 million despite a drop in the business volume overall. Interest expenses showed a sharper drop than interest income in connection with the persistently low level of interest rates on the money and capital markets. The decrease in interest income was a result of both the further decline in the interest level and, in large part, of the decline in volumes of loans and advances as well as the further winding-down of the non-core banking business. Interest expenses also fell as a result of the improved funding options due to interest rates and liquidity. This was also a product of LBBW's stable or improved ratings. Higher distributions from investments also contributed to the positive development overall in the past financial year. Net interest income from trading and hedging derivatives also recorded a strong performance. The lower volume of derivatives was a critical factor here in particular.

Net fee and commission income improved considerably year on year by EUR 47 million to EUR 224 million (previous year: EUR 177 million), with the individual types of fees and commissions showing a difference in performance. The earnings increase over the previous year was in large part aided by significantly lower expenditure for the guarantee commission of EUR – 191 million to be paid to the State of Baden-Württemberg (previous year: EUR – 293 million). This was due to the complete sale of the securitization portfolio guaranteed by the owners of LBBW. LBBW continues to finance the special-purpose entity Sealink, which is not required to be consolidated. The State of Baden-Württemberg still offers a guarantee for certain loans to this special-purpose entity, for which fee and commission payments will still have to be made in the future. The remaining types of fees and commissions fell slightly versus the previous year; significantly lower fee and commission income from loans and sureties was reported as a result of the perceptibly subdued demand for loans at the beginning of the year.

Total operating income/expenses from the trading portfolio fell from EUR 276 million in the previous year to EUR 72 million in the current year. The reasons for the decline in income include increased valuation effects and a drop in the capital markets business due to lower demand for hedging products. It should be noted that the extremely high figure from the previous year was marked by lively trading with interest rate products, among other things. If we consider the development of trading portfolios and the relevant market parameters, statutory risk discounts (value at risk) worth EUR 24 million (previous year: EUR 8 million) were reversed in 2014. Allocations to the fund for general bank risks were also reduced in the period under review to EUR – 8 million (previous year: EUR – 30 million).

Administrative expenses rose by EUR – 130 million year on year from EUR – 1,474 million to EUR – 1,604 million overall. There were further structural changes in types of expenses in 2014, influenced by the outsourcing of IT activities that began in 2013. Staff costs rose by EUR – 35 million. A significant component here were additions to provisions for pension plans worth EUR – 55 million, which were partly due to the lower interest level. Other administrative expenses saw selective relief, but higher burdens to deal with regulatory requirements, increased contributions for the bank levy and a rise in IT spending overall led to a EUR – 95 million increase. Projects started in the past year to restructure the IT architecture with the aim of accommodating the growing degree of bank management requirements were also key factors behind the increase. Depreciation of buildings, property and equipment remained almost consistent with the previous year's level at EUR – 69 million.

Other operating income/expenses improved by EUR 47 million to EUR 50 million thanks to a number of one-off effects (previous year: EUR 3 million). While income from the disposal of equity investments fell, the creation of provisions in net terms led to a reversal, primarily from legal and process risks, worth EUR 23 million. Earnings had also been weighed down in the 2013 reporting period by an aperiodic tax effect.

Allowances for losses on loans and advances/remeasurement gain or loss improved overall year on year by EUR 127 million to EUR – 72 million (previous year: EUR – 199 million). This included the following:

- The **remeasurement gain or loss on securities, borrower's note loans and derivatives from the liquidity reserve** fell by EUR – 17 million to EUR – 4 million. This was due to a number of one-off effects, including in particular an effect from the restructuring of capital-guaranteed borrower's note loans.
- The **remeasurement gain or loss on securities held as long-term investments** improved by EUR 17 million to EUR 55 million. As the non-core banking business was being scaled back further, securities from the guarantee portfolio were sold in their entirety, and other parts of the non-guaranteed portion of the credit substitute business were sold. The previous year's result, in contrast, was heavily influenced by positive profit contributions generated within the course of reductions of some large exposures.
- The **remeasurement gain or loss from equity investments and affiliated companies** decreased by EUR – 52 million to EUR 16 million. One factor worth mentioning here is the higher reversal of impairment losses at EUR 68 million that accrued in the previous year while a subsidiary was being merged.
- **Gains/losses from the transfer of losses** improved by EUR 63 million to EUR – 24 million (previous year: EUR – 87 million). This was due to higher allowances for losses on loans and advances at a subsidiary in the previous year.
- **Allowances for losses on loans and advances** dropped by EUR 115 million year on year to EUR – 115 million and were far below the planned figures overall and also fell short of the long-term average. In accordance with the economic trend, this figure was a reflection of the quality of LBBW's credit portfolio in each of its core markets.

The **extraordinary result** deteriorated by EUR – 48 million to EUR – 25 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 – 27 million in 2014, as in the previous years as well. One major reason for the change in particular was a positive effect from the net reversal of restructuring provisions no longer needed in the amount of EUR 49 million in the year prior.

Net profit/loss before tax and hybrid servicing for the 2014 financial year amounted to EUR 424 million overall (previous year: EUR 531 million).

The **income tax expense** stood at EUR – 20 million for the 2014 financial year (previous year: EUR – 77 million). Current income taxes rose by EUR – 26 million in the 2014 financial year to EUR – 44 million, largely as a result of the Bank's sound earnings performance in Germany. Income taxes pertaining to previous years improved to EUR 24 million, especially as a result of several extraordinary effects. One example here is the recognition of write-downs to the going-concern value of leasing companies in the event of long-term impairments, which can now be recognized in profit or loss.

Net profit/loss for the year after tax and before hybrid servicing at EUR 404 million did not quite meet the previous year's result of EUR 454 million. The sharp rise in **unappropriated profit** by EUR 241 million to EUR 313 million is related to the interest payments on hybrid capital that still had to be made up in 2013.

Net assets and financial position.

Assets	31 Dec. 2014 EUR million	31 Dec. 2013 EUR million	Change EUR million	Change in %
Cash and cash equivalents	1,927	2,101	– 174	– 8.3
Public-sector debt instruments and bills of exchange eligible for refinancing at central banks	0	52	– 52	– 100.0
Loans and advances to banks	38,948	48,412	– 9,464	– 19.5
Loans and advances to customers	111,673	109,049	2,624	2.4
Debentures and other fixed-income securities	31,891	44,163	– 12,272	– 27.8
Equities and other non-fixed-income securities	250	326	– 76	– 23.3
Trading portfolio	58,314	71,254	– 12,940	– 18.2
Equity investments	649	598	51	8.5
Shares in affiliates	2,332	2,761	– 429	– 15.5
Trust assets	818	886	– 68	– 7.7
Intangible assets	98	85	13	15.3
Property and equipment	379	399	– 20	– 5.0
Other assets	1,778	1,829	– 51	– 2.8
Deferred income	1,368	1,481	– 113	– 7.6
Total assets	**250,425**	**283,396**	**– 32,971**	**– 11.6**

Liabilities	31 Dec. 2014 EUR million	31 Dec. 2013 EUR million	Change EUR million	Change in %
Deposits from banks	53,043	59,089	– 6,046	– 10.2
Deposits from customers	74,549	86,613	– 12,064	– 13.9
Securitized liabilities	49,559	60,444	– 10,885	– 18.0
Trading portfolio	46,718	50,388	– 3,670	– 7.3
Trust liabilities	818	886	– 68	– 7.7
Other liabilities	1,552	1,023	529	51.7
Deferred items	1,449	1,531	– 82	– 5.4
Provisions	2,183	2,359	– 176	– 7.5
Subordinated liabilities	4,766	4,360	406	9.3
Capital generated from profit-participation rights	435	584	– 149	– 25.5
Fund for general banking risks	521	513	8	1.6
Equity	14,830	15,606	– 776	– 5.0
Total equity and liabilities	**250,425**	**283,396**	**– 32 971**	**– 11.6**
Contingent liabilities	8,284	13,747	– 5,463	– 39.7
Other liabilities	24,365	22,422	1,943	8.7
Business volume [1]	**283,074**	**319,565**	**– 36,491**	**– 11.4**

1) In addition to total assets, the business volume includes off-balance-sheet contingent liabilities and other obligations.
Differences of +/– one unit are due to rounding up/down.

Business volume.

The past financial year at LBBW (Bank) was marked by a substantial reduction of volumes. **Total assets** as at 31 December 2014 dropped by EUR – 33.0 billion or – 11.6% to EUR 250.4 billion.

Similar to this, the **business volume** also declined noticeably, namely by EUR – 36.5 billion to EUR 283.1 billion.

Lending.

The level of **loans and advances to banks** as at 31 December 2014 fell by EUR – 9.5 billion to EUR 38.9 billion. Public-sector loans accounted for a substantial portion of the decline, namely EUR – 4.5 billion. In addition, the substantial EUR – 4.1 billion drop in securities repurchase transactions was marked by tri-party repo transactions above all.

Loans and advances to customers increased by EUR 2.6 billion as at the end of 2014 to EUR 111.7 billion. This was dominated by the expansion of business volumes from securities repurchase transactions with a EUR 6.6 billion increase. On the other hand, mortgage loans decreased by EUR – 2.0 billion and public-sector loans declined by EUR – 1.0 billion.

The portfolio of **bonds and other fixed-income securities** decreased by a total of EUR – 12.3 billion to EUR 31.9 billion as a result of the continued reduction of risk and, in particular, the complete sale of the guarantee portfolio. Bonds and debentures fell by a total of EUR – 7.9 billion. This was owed to, among other things, the maturing of a GPBW GmbH & Co. KG bond (guarantee company of the State of Baden-Württemberg) in the amount of EUR – 12.7 billion, which was acquired in connection with the guarantee structure of the risk shield. A newly issued bond in the amount of EUR 5.5 billion was acquired from GPBW GmbH & Co. KG in order to shield from risk from the loan issued to the special-purpose entity. The decline in own debentures by EUR – 4.4 billion was mostly attributable to extraordinary and partial repayments.

Trading assets over the course of the year fell sharply by EUR – 12.9 billion to EUR 58.3 billion. This decline in particular affected the positive fair values from derivative financial instruments and was a result of the net presentation of bilateral OTC derivatives carried out for the first time at year-end, with a volume of EUR – 14.8 billion. This was partly offset by the further decrease in the interest level, thus reducing the item by EUR – 7.0 billion overall. At the same time, the loans and advances to banks reported as trading transactions fell by EUR – 2.7 billion and loans and advances to customers by another EUR – 3.7 billion. This reduction in loans and advances to customers was primarily a result of the net presentation of bilateral OTC derivatives, especially with regard to the margin payments of EUR – 5.4 billion applied as money market transactions.

The item **shares in affiliates** declined in the year under review from EUR 2.8 billion to EUR 2.3 billion particularly as a result of the merger of LBBW Luxemburg S.A. and LBBW as well as the completion of the sale of LBBW Bank CZ.

Funding.

Deposits from banks dropped by EUR – 6.0 billion versus the end of 2013 to EUR 53.0 billion. The reason for this was seen in the decline in registered public-sector covered bonds in the amount of EUR – 0.6 billion and a reduction in the scope of securities repurchase transactions worth EUR – 2.5 billion. Maturities of borrower's note loans exceeded the new business and prompted a reduction of the portfolio overall by EUR – 1.9 billion.

As at 31 December 2014, **deposits from customers** amounted to EUR 74.5 billion and fell far short of the level at the start of the previous year, namely by EUR - 12.1 billion. A major portion of the decline was attributable to the EUR - 7.2 billion reduction of cash collateral put up by GPBW GmbH & Co. KG (guarantee company of the State of Baden-Württemberg). This is because a portion of the guarantee volume is longer required given the complete sale of the guarantee portfolio. So there are still term deposits of EUR 5.5 billion to secure the loan granted to the special-purpose entity Sealink. The volume of bilateral securities repurchase transactions also declined by EUR - 1.1 billion. Maturities brought the level of registered public-sector covered bonds down by EUR - 1.3 billion and new issues of these were not enough to compensate for the maturities.

The drop in the level of **securitized liabilities** by EUR - 10.9 billion to EUR 49.6 billion reflected the subdued trend of new business on the assets side. Extraordinary and partial repayments, especially of own debentures, reduced the size of the portfolio. Only a small degree of maturing liabilities were replaced. The portfolio of debentures thus decreased by EUR - 7.5 billion, and public-sector covered bonds by EUR - 3.3 billion.

As was already explained in assets, trading on the liabilities side also fell significantly, resulting in a decline in **trading liabilities** by EUR - 3.7 billion to EUR 46.7 billion during the period under review. The net presentation of bilateral OTC derivatives in particular, which totaled EUR - 18.7 billion, reduced the negative fair values from derivative financial instruments. The further drop in the interest level resulted in a larger portfolio, on the other hand, as a result of which the item of negative fair values from derivative financial instruments decreased by EUR - 8.8 billion overall. Money market positions, in contrast, were increased by EUR 5.5 billion. This figure already includes effects from the net presentation of bilateral OTC derivatives in the amount of EUR - 1.6 billion in connection with margin payments.

In the year under review, LBBW issued **subordinated liabilities** in the amount of EUR 0.5 billion. This figure contrasted with maturities of EUR 0.2 billion, thus resulting in a level of EUR 4.8 billion as at year-end 2014.

Equity.

Subscribed capital was reduced to EUR 4.8 billion as a result of the repayment of EUR 1.0 billion in silent partners' contributions to the owners of LBBW. Including capital reserves and retained earnings as well as unappropriated profit, LBBW had EUR 14.8 billion in equity on its balance sheet as at year-end 2014.

Financial position.

LBBW's funding strategy is determined by the Asset Liability Committee (ALCo). Here the Bank focuses on ensuring a balanced structure in terms of groups of products and investors used. The Bank's financial position throughout the entire reporting year 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 totaled 1.34 as at 31 December 2014 (previous year: 1.47).

Consolidated financial statements.

CONTENTS

The consolidated financial statements for the 2014 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.

Income statement

for the period 1 January to 31 December 2014.

EUR million	Notes	1 Jan. – 31 Dec. 2014	1 Jan. – 31 Dec. 2013 [1)]
Interest income	22	17,423	22,807
Interest expense	22	– 15,545	– 21,034
Net interest income	22	1,878	1,773
Allowances for losses on loans and advances	23	– 104	– 314
Fee and commission income	24	634	667
Fee and commission expenses	24	– 116	– 122
Net fee and commission income	24	518	545
Net gains/losses from financial instruments measured at fair value through profit or loss	25	– 120	369
Net gains/losses from financial investments	26	146	10
Net income/expenses from investments accounted for using the equity method	27	117	6
Other operating income/expenses	28	97	84
Net income/expenses from investment property	29	4	29
Administrative expenses	30	– 1,853	– 1,774
Guarantee commission for the State of Baden-Württemberg	6	– 191	– 300
Impairment of goodwill	41	– 16	– 3
Net income/expenses from restructuring	31	1	48
Net consolidated profit/loss before tax		**477**	**473**
Income tax	32	– 43	– 134
Net consolidated profit/loss		**434**	**339**
of which attributable to shareholders after tax		434	339

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

Total comprehensive income

for the period 1 January to 31 December 2014.

EUR million	Notes	1 Jan. – 31 Dec 2014	1 Jan. – 31 Dec. 2013 [1)]
Net consolidated profit/loss		**434**	**339**
Net consolidated profit/loss in equity			
Items that will not be transferred subsequently to the income statement			
Retained earnings			
Actuarial gains/losses before tax	50	- 552	89
Income tax	32	167	- 27
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, 54	260	693
Transferred to income statement	21, 54	- 89	- 64
Income tax	32	- 27	- 153
Measurement gains/losses from investments accounted for using the equity method			
Changes before tax	21, 54	- 58	- 3
Income tax	32	- 1	0
Measurement gains/losses from cash flow hedges			
Changes in fair value before tax	21, 54	- 2	1
Transferred to income statement	21, 54	4	0
Currency translation differences			
Changes before tax	21, 54	18	- 10
Transferred to income statement	21, 54	10	0
Total net consolidated profit/loss in equity		**- 270**	**526**
of which from non-current assets held for sale and disposal groups		12	- 8
Net consolidated total comprehensive income		**164**	**865**
of which attributable to shareholders after tax		164	865

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

Balance sheet

as at 31 December 2014.

Assets.

EUR million	Notes	31 Dec. 2014	31 Dec. 2013 1)	1 Jan. 2013 1)
Cash and cash equivalents	8, 33	1,936	2,156	2,909
Loans and advances to banks	9, 34	38,424	47,625	50,126
Loans and advances to customers	9, 15, 35, 69	113,195	111,453	119,098
Allowances for losses on loans and advances	9, 36	– 1,594	– 2,201	– 2,519
Financial assets measured at fair value through profit or loss	6, 37	79,884	70,105	108,911
Financial investments	6, 38	29,050	40,660	52,771
Shares in investments accounted for using the equity method	3, 10, 39	302	297	303
Portfolio hedge adjustment attributable to assets	6	750	355	580
Non-current assets held for sale and disposal groups	11, 40	93	727	23
Intangible assets	12, 41	489	494	502
Investment property	13, 42	705	481	491
Property and equipment	14, 15, 43, 69	644	646	730
Current income tax assets	16, 44	219	179	182
Deferred income tax assets	16, 44	1,095	1,059	1,268
Other assets	17, 18, 45	1,038	610	1,350
Total assets		**266,230**	**274,646**	**336,725**

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

Equity and liabilities.

EUR million	Notes	31 Dec. 2014	31 Dec. 2013 [1]	1 Jan. 2013 [1]
Deposits from banks	6, 46	52,314	58,045	64,250
Deposits from customers	6, 47	69,874	82,053	85,359
Securitized liabilities	6, 48	44,231	50,693	61,964
Financial liabilities measured at fair value through profit or loss	6, 49	75,246	57,651	99,729
Portfolio hedge adjustment attributable to liabilities	6	751	685	1,199
Provisions	19, 50	3,455	3,133	3,129
Liabilities from disposal groups	11, 40	0	915	0
Current income tax liabilities	16, 51	69	58	200
Deferred income tax liabilities	16, 51	66	169	170
Other liabilities	17, 52	787	742	684
Subordinated capital	20, 53	6,229	7,103	9,715
Equity	**21, 54**	**13,208**	**13,399**	**10,326**
Share capital		3,484	3,484	2,584
Capital reserve		8,240	8,240	6,910
Retained earnings		920	1,214	771
Other income		111	104	– 362
Unappropriated profit/loss		434	339	399
Shareholders' equity		**13,189**	**13,381**	**10,302**
Equity attributable to non-controlling interests		19	18	24
Total equity and liabilities		**266,230**	**274,646**	**336,725**

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

Statement of changes in equity

for the period 1 January to 31 December 2014.

EUR million	Share capital	Capital reserve	Retained earnings[1]
Equity as at 31 December 2012	2,584	6,910	782
Adjustment of prior year values	0	0	– 11
Adjusted equity as at 1 January 2013	**2,584**	**6,910**	**771**
Allocation to retained earnings	0	0	399
Capital increase/capital reduction	900	1,330	0
Changes in the scope of consolidation	0	0	– 7
Actuarial gains/losses	0	0	62
Changes in AfS financial instruments	0	0	0
Measurement gains/losses from investments accounted for using the equity method	0	0	– 3
Measurement gains/losses from cash flow hedges	0	0	0
Currency translation differences	0	0	0
Net profit/loss in equity	**0**	**0**	**59**
Adjustment of prior year values	0	0	0
Adjusted net consolidated profit/loss	0	0	0
Adjusted net consolidated total comprehensive income	**0**	**0**	**59**
Adjustment of prior year values	0	0	2
Other changes in equity	0	0	– 10
Adjusted equity as at 31 December 2013	**3,484**	**8,240**	**1,214**
Allocation to retained earnings	0	0	339
Distribution to shareholders	0	0	– 72
Changes in the scope of consolidation	0	0	– 175
Actuarial gains/losses	0	0	– 385
Changes in AfS financial instruments	0	0	0
Measurement gains/losses from investments accounted for using the equity method	0	0	0
Measurement gains/losses from cash flow hedges	0	0	0
Currency translation differences	0	0	0
Net profit/loss in equity	**0**	**0**	**– 385**
Net consolidated profit/loss	0	0	0
Net consolidated total comprehensive income	**0**	**0**	**– 385**
Other changes in equity	0	0	– 1
Equity as at 31 December 2014	**3,484**	**8,240**	**920**

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

The composition of equity is explained in Note 21 and Note 54.

Revaluation reserve	Measurement/ gains/losses from investments accounted for using the equity method	Measurement gains/losses from cash flow hedges	Currency translation reserve	Unappropriated profit/loss	Shareholders' equity[1]	Equity attributable to non-controlling interest	Total[1]
– 462	106	– 3	– 4	399	10,312	21	10,333
0	0	0	1	0	– 10	3	– 7
– 462	**106**	**– 3**	**– 3**	**399**	**10,302**	**24**	**10,326**
0	0	0	0	– 399	0	0	0
0	0	0	0	0	2,230	0	2,230
– 1	0	0	0	0	– 8	0	– 8
0	0	0	0	0	62	0	62
476	0	0	0	0	476	0	476
0	0	0	0	0	– 3	0	– 3
0	0	1	0	0	1	0	1
0	0	0	– 10	0	– 10	0	– 10
476	**0**	**1**	**– 10**	**0**	**526**	**0**	**526**
0	0	0	0	– 4	– 4	6	2
0	0	0	0	339	339	0	339
476	**0**	**1**	**– 10**	**339**	**865**	**0**	**865**
0	0	0	0	0	2	0	2
0	0	0	0	0	– 10	– 6	– 16
13	**106**	**– 2**	**– 13**	**339**	**13,381**	**18**	**13,399**
0	0	0	0	– 339	0	0	0
0	0	0	0	0	– 72	0	– 72
– 108	0	0	0	0	– 283	0	– 283
0	0	0	0	0	– 385	0	– 385
144	0	0	0	0	144	0	144
0	– 59	0	0	0	– 59	0	– 59
0	0	2	0	0	2	0	2
0	0	0	28	0	28	0	28
144	**– 59**	**2**	**28**	**0**	**– 270**	**0**	**– 270**
0	0	0	0	434	434	0	434
144	**– 59**	**2**	**28**	**434**	**164**	**0**	**164**
0	0	0	0	0	– 1	1	0
49	**47**	**0**	**15**	**434**	**13,189**	**19**	**13,208**

Cash flow statement

for the period 1 January to 31 December 2014.

EUR million	Notes	1 Jan. – 31 Dec. 2014	1 Jan. – 31 Dec. 2013 [1]
Net consolidated profit/loss		**434**	**339**
Non-cash items in net consolidated profit/loss for the period and reconciliation to cash flow from operating activities			
Depreciation, write-downs and reversals of impairment losses on receivables, property and equipment, and financial investments		185	490
Increase in provisions		148	144
Other non-cash expenses		662	– 945
Gains/losses on the sale of financial investments and property and equipment		– 76	– 36
Other adjustments		– 1,834	– 1,664
		– 481	**– 1,672**
Changes in assets and liabilities from operating activities			
Loans and advances to banks		9,104	2,372
Loans and advances to customers		– 2,203	7,184
Financial assets measured at fair value through profit or loss		6,346	32,483
Financial investments		11,296	12,858
Other assets from operating activities		– 930	– 55
Deposits from banks		– 5,957	– 6,095
Deposits from customers		– 12,024	– 3,032
Securitized liabilities		– 6,303	– 11,079
Financial liabilities measured at fair value through profit or loss		981	– 35,572
Other liabilities from operating activities		– 546	917
Dividends received		88	98
Interest received		17,902	27,252
Interest paid		– 16,317	– 25,721
Income taxes paid		– 78	– 248
Cash flow from operating activities	**74**	**878**	**– 310**
Proceeds from the sale of			
equity investments		176	64
property and equipment		5	3
intangible assets		0	2
Payments for the acquisition of			
equity investments		– 188	– 9
property and equipment		– 20	– 18
intangible assets		– 52	– 52
Proceeds from the sale of consolidated companies [2]		61	0
Cash flow from investing activities	**74**	**– 18**	**– 10**
Dividends paid	54	– 72	0
Net change in cash and cash equivalents from other capital		– 1,010	– 433
Cash flow from financing activities	**74**	**– 1,082**	**– 433**

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. 2014	1 Jan. – 31 Dec. 2013
Cash and cash equivalents at the beginning of the period		**2,156**	**2,909**
Cash flow from operating activities		878	– 310
Cash flow from investing activities		– 18	– 10
Cash flow from financing activities		– 1,082	– 433
Changes to cash and cash equivalents arising from the scope of consolidation		2	0
Cash and cash equivalents at the end of the period	**33, 74**	**1,936**	**2,156**

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 long-term 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.

As a result of the sale of a fully-consolidated subsidiary, loans and advances to banks, in particular, of EUR 39 million, loans and advances to customers of EUR 570 million, as well as deposits from banks of EUR 34 million and deposits from customers of EUR 718 million were deducted in the financial year. The net inflow of payments (sales price less outgoing cash and cash equivalents) amounts to EUR 55 million.

Notes

for the 2014 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 consolidated financial statements for the 2014 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 12 March 2015.

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 in one case. In this case too, the figures as at 31 December 2014 are taken into consideration in these consolidated financial statements.

The functional currency and the reporting currency 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 expenses 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 2014 financial year:

IFRS 10 Consolidated Financial Statements.

This standard contains the new regulations on consolidation and replaces the corresponding provisions in IAS 27 »Consolidated and Separate Financial Statements« and SIC-12 »Consolidation – Special Purpose Entities«. At the core of the changes is the redefinition of the parent-subsidiary relationship and therefore the scope of consolidation. In future, control is considered to exist if the following three features have been cumulatively fulfilled:

- LBBW has direct or indirect decision-making authority to determine key business activities for the economic success of an enterprise.
- LBBW is subject to variable returns from these companies that can be both positive and negative.
- LBBW can use its decision-making authority to impact on the amount of the company's variable returns.

The first-time application of IFRS 10 impacts on the scope of consolidation as well as on the Group's net assets, financial position and results of operations, while taking into account the transition guidelines. This involves the first-time inclusion of two securitization companies and the deconsolidation or new addition of a real estate company as a joint venture using the equity method. The consolidation takes effect retrospectively from the date on which LBBW Group acquires controlling influence. Detailed information about the scope of consolidation is set out in Note 3. The impact of the scope of consolidation on the consolidated balance sheet, the consolidated income statement and the cash flow statement is shown in the following tables:

Assets.

EUR million	31 Dec. 2013	1 Jan. 2013
Loans and advances to banks	47	47
Current account claims	– 2	0
Other receivables	49	47
Loans and advances to customers	2,403	1,926
Other receivables	2,058	1,595
Other loans	345	331
Allowances for losses on loans and advances	– 22	– 15
Specific/collective valuation allowance Loans and advances to customers	– 22	– 15
Financial assets measured at fair value through profit or loss	– 1,283	– 1,540
Trading assets	– 1,283	– 1,540
Positive fair values from trading derivatives	– 1	0
Money market transactions	– 1,282	– 1,540
Deferred income tax assets	– 3	– 2
Other assets	– 5	– 16
Inventories	– 5	– 16
Total assets	**1,137**	**400**

Equity and liabilities.

EUR million	31 Dec. 2013	1 Jan. 2013
Deposits from customers	0	22
Current account liabilities	– 54	– 47
Other liabilities	54	69
Securitized liabilities	1,132	375
Money market transactions	1,132	375
Provisions	– 7	– 4
Provisions for lending business	– 7	– 4
Equity	**12**	**7**
Retained earnings	3	3
Other income	0	1
Equity attributable to non-controlling interests	9	3
Total equity and liabilities	**1,137**	**400**
Contingent liabilities	– 2,782	– 2,236
Sureties and guarantee agreements	– 2,782	– 2,236

Income statement.

EUR million	31 Dec. 2013
Net interest income	– 21
Interest income from lending and money market transactions	– 16
Interest expense for securitized liabilities	– 6
Other interest expenses	1
Allowances for losses on loans and advances	– 4
Additions to allowances for losses on loans and advances	– 7
Additions to provisions	3
Net fee and commission income	23
Fee and commission income from lending, trustee and guarantee (aval) business	26
Other fee and commission income	– 3
Other operating income/expenses	8
Income from the disposal of inventories	– 2
Impairment of inventories	8
Expenses from the disposal of inventories	2
Net consolidated profit/loss before tax	**6**
Income tax	– 1
Net consolidated profit/loss	**5**
of which attributable to non-controlling interests after tax	– 5

Cash flow statement.

EUR million	31 Dec. 2013
Net consolidated profit/loss	**5**
Non-cash items in net consolidated profit/loss for the period and reconciliation to cash flow from operating activities	
Depreciation, write-downs and reversals of impairment losses on receivables, property and equipment, and financial investments	7
Other non-cash expenses	– 8
Other adjustments	21
	25
Changes in assets and liabilities from operating activities	
Loans and advances to banks	– 1
Loans and advances to customers	– 476
Financial assets measured at fair value through profit or loss	– 257
Other assets from operating activities	– 2
Deposits from customers	– 22
Securitized liabilities	757
Other liabilities from operating activities	– 3
Interest received	– 16
Interest paid	– 5
Cash flow from operating activities	**0**

IFRS 11 Joint Arrangements.

This standard contains the new accounting rules for joint ventures and combined operations and replaced IAS 31 »Interests in Joint Ventures« and SIC-13 »Jointly Controlled Entities – Non-Monetary Contributions by Venturers«. The new IFRS 11 distinguishes between joint ventures and combined operations. Joint ventures are joint agreements where the parties who exercise joint control over the agreement have rights to the net assets of the agreement. Joint ventures must be included in the consolidated financial statements using the equity method and no longer optionally using proportionate consolidation. In contrast, assets and liabilities applicable to the investor as well as expenses and income from combined operations are included proportionately in the consolidated financial statements. Jointly controlled operations are a joint agreement where the parties that exercise joint control over the agreement have rights to the assets attributable to the agreement and obligations for its debts.

The first-time application of IFRS 11 is not expected to have any material impact on the consolidated financial statements of LBBW.

IFRS 12 Disclosure of Interests in Other Entities.

The disclosure requirements in respect of IFRS 10, IFRS 11 and IAS 28 are included in this standard. Specifically, information must be disclosed that offers an insight into the risks and their financial implications that are associated with subsidiaries, joint ventures and associates. In addition, IFRS 12 requires details about structured companies that are not controlled.

IFRS 12 is to be applied for the first time at year-end and leads to an extension of the reporting requirements in the Notes, particularly in connection with structured entities.

IAS 27 Separate Financial Statements.

This standard replaces the previous IAS 27 »Consolidated and Separate Financial Statements«. Its scope of application extends exclusively to the preparation of separate financial statements.

The changes do not have any impact on the consolidated financial statements of LBBW.

IAS 28 Investments in Associates and Joint Ventures.

This standard contains mainly the definition of an associate and provisions for using the equity method for associates and joint ventures and replaces IAS 28 »Investments in Associates«. These also include clarifications on the interplay between IAS 28 and IFRS 5 on the partial disposal of shares in associates and joint ventures, which were already applicable in the current financial year.

Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities – Transition Guidance – Amendments to IFRS 10, IFRS 11 and IFRS 12.

This standard facilitates above all the easy transition to IFRS 10, IFRS 11 and IFRS 12. In particular, the mandatory presentation of quantitative effects is restricted to the previous year. In addition, no comparative data is necessary for structured entities over which no control is exercised in the year of first-time application.

LBBW has taken the exemptions into consideration.

Investment Entities – Amendments to IFRS 10, IFRS 12 and IAS 27.

This standard provides for an exemption from the consolidation obligation for subsidiaries of specific parent companies in accordance with IFRS 10. This affects parent companies that meet the requirements of an investment company within the meaning of this standard.

The first-time application is not expected to have any impact on the consolidated financial statements of LBBW.

Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32.

This standard contains clarification concerning the requirements for offsetting financial assets and financial liabilities.

The first-time application is not expected to have any impact on the consolidated financial statements of LBBW.

Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39.

This standard extends the scope of the applications that can provide relief from discontinuing hedge accounting in relation to a novation of hedging instruments. Under certain circumstances, novations of hedging instruments to a central counterparty may no longer lead to a discontinuation of hedge accounting.

Applications include, in particular, transfers of hedging derivatives concluded off-exchange to a central counterparty in conjunction with the European Market Infrastructure Regulation (EMIR). The first-time application has no material impact on the consolidated financial statements of LBBW.

IFRIC 21 Levies.

This interpretation governs the accounting of public levies. It sets out when and in what amount these levies should be recognized. Its scope of application also includes the banking levy imposed by the Financial Market Stabilization Authority (FMSA).

This interpretation is voluntarily applied ahead of time. The first-time application is not expected to have any impact on the consolidated financial statements.

IFRS to be applied in future.

The following IFRS had not yet taken effect as at the balance sheet date. Unless otherwise stated, these IFRS are already recognized in European law and LBBW does not intend to apply them earlier on a voluntary basis:

Annual Improvements to IFRS 2010 – 2012 Cycle, Annual Improvements to IFRS 2011 – 2013 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 change to the »Annual Improvements to IFRSs 2010 – 2012 Cycle« standard will become effective for the first time in the 2016 financial year. The first-time application is not expected to have any material effect on the consolidated financial statements.

The change to the »Annual Improvements to IFRSs 2011 – 2013 Cycle« standard will become effective for the first time in the 2015 financial year. The first-time application is not expected to have any material effect on the consolidated financial statements.

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

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

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

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

IFRS 14 Regulatory Deferral Accounts.

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

The changes are expected to become effective for the first time in the 2016 financial year. The first-time application is not expected to have any impact on the consolidated financial statements of LBBW. The standard had not been recognized in European Law as at the balance sheet date.

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

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

The changes are expected to become effective for the first time in the 2016 financial year. The first-time application is not expected to have any impact on the consolidated financial statements of LBBW. The standard had not been recognized in European Law as at the balance sheet date.

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

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

The changes are expected to become effective for the first time in the 2016 financial year. The first-time application is not expected to have any impact on the consolidated financial statements of LBBW. The standard had not been recognized in European Law as at the balance sheet date.

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

This standard determines that interests acquired in a combined operation that represents a business operation within the meaning of IFRS 3 fundamentally meet the requirements of IFRS 3 as well.

The changes are expected to effective for the first time in the 2016 financial year. The first-time application is not expected to have any impact on the consolidated financial statements of LBBW. The standard had not been recognized in European Law as at the balance sheet date.

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

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

The changes are expected to become effective for the first time in the 2016 financial year. The first-time application is not expected to have any material effect on the consolidated financial statements. The standard had not been recognized in European Law as at the balance sheet date.

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

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

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

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

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

The changes are expected to be applicable for the first time in the 2016 financial year. The first-time application is not expected to have any impact on the consolidated financial statements of LBBW. It had not been recognized in European Law as at the balance sheet date.

Disclosure Initiative – Amendments to IAS 1.

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

The changes are expected to become effective for the first time in the 2016 financial year. The impact of the first-time application on the consolidated financial statements is still being reviewed. The standard had not been recognized in European Law as at the balance sheet date.

IFRS 15 Revenue from Contracts with Customers.

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

The changes are expected to become effective for the first time in the 2017 financial year. The impact of the first-time application on the consolidated financial statements is still being reviewed. The standard had not been recognized in European Law as at the balance sheet date.

IFRS 9 Financial Instruments (2014).

This standard contains the accounting rules for financial instruments to be applied in the future and therefore replaces the earlier versions of IFRS 9 and large parts of IAS 39. For the classification and measurement of financial assets, the underlying business model and the product characteristics will be decisive in future in relation to cash flows. Allowances for losses on loans and advances will no longer be restricted to losses already incurred but will also comprise expected losses, and hedge accounting will be oriented more closely to risk management. The new regulations for macro hedge accounting are still being discussed and are not part of this standard.

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

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:

- Changes were made to the estimates for the parameters that are used for the CVA calculation of public-sector counterparties. This change resulted in a reduction of EUR 12 million in net gains/losses from financial instruments measured at fair value.
- In order to determine the fair value hierarchy of debentures, the allocation rules were partially adjusted to reflect clarifications by the IFRIC in relation to the interpretation of IFRS 13 and current market practice. This led to a migration of the fair value volume from Level I to Level II totaling EUR 8.8 billion and of EUR 0.3 billion from Level II to Level I.

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.

In the financial year the following facts were corrected retrospectively in accordance with IAS 8.42:

- Up to 2013, a property that was mainly owner-occupied from the Group's perspective was reported under the item »Investment property« in the consolidated financial statements of LBBW and measured at fair value. Due to the immaterial valuation effects in the 2013 financial year, the retrospective correction of the cumulative effect on earnings from previous years is reported in equity as at 1 January 2013, leading to a reduction of EUR 3.7 million and to a EUR 0.7 million increase in deferred tax assets. The reclassification in fixed assets is measured at amortized cost and increased the balance sheet item by EUR 20.5 million.
- Due to the improper measurement of forward-forward swaps in the second half of the 2013 financial year, the volume of assets held for trading reported as at 31 December 2013 was too high. The trading assets were reduced by EUR 4.1 million and the deferred tax assets increased by EUR 0.5 million in the retrospective amendment. Net gains/losses from financial instruments measured at fair value was reduced by EUR – 4.1 million as at 31 December 2013 and deferred tax expense was improved by EUR +0.5 million.
- In the case of contractual changes (modifications), structured promissory notes were subject to an improper measurement of premium amortizations and measurement results of embedded options in previous periods. The effects until 2012 have been amended retrospectively against equity as at 1 January 2013, reducing it by EUR – 2.4 million. The deferred income tax assets were thus increased by EUR 1.0 million, deposits from customers by EUR 4.5 million and deposits from banks by EUR 14.8 million. The trading liabilities were reduced by EUR – 2.6 million and other liabilities by EUR – 13.3 million. There were no material changes in the 2013 financial year. Accordingly, no corrections were necessary for the 2013 financial year.

- In previous years, the OTC interest rate derivatives were valued for certain counterparties using a yield curve that applies only for derivatives with collateral agreements, even though such agreements were not available for these specific counterparties. The effect of the retrospective amendment reduced the equity by EUR – 8.2 million and the trading assets by EUR – 11.7 million as at 1 January 2013. The deferred income tax assets increased by EUR 3.5 million. Owing to the immaterial amount applicable to the 2013 financial year, the retrospective improvement of EUR 2.0 million is recognized in equity. Other amendment items are the trading assets, which increase by EUR 3 million and deferred income tax assets, which were reduced by EUR 1.0 million.

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

3. Scope of consolidation.

In addition to LBBW (Bank) as the parent company, 130 subsidiaries, of which 14 structured entities (previous year: 111 subsidiaries and 15 special-purpose 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.

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

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

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

The following subsidiaries were deconsolidated in the period under review:

- BW Bank Capital Funding LLC II
- BW Bank Capital Funding Trust II
- LBBW Bank CZ a.s.
- Sechste Industriehof Objekt-GmbH & Co. KG (LBBW Immobilien Management GmbH sub-group)

LBBW Luxemburg S.A. and Gewerbepark Königstraße Kaiserslautern GmbH were merged with LBBW or a subsidiary during the financial year and are no longer included in the financial statements by way of full consolidation.

The following structured entities were deconsolidated as at 31 December 2014:

- Georges Quay Funding I Limited
- LAAM-Fonds I (LAAM Subtrust I)
- LAAM-Fonds II
- LAAM-Fonds XI

A deconsolidated loss of EUR – 19 million was incurred from the deconsolidations stated above; it is shown in »Other operating income/expenses«.

Full consolidation for the following special-purpose entity was also ended retrospectively following the first-time application of IFRS 10 and IFRS 11; it is now accounted for using the equity method:

- Parcul Banatului SRL (LBBW Immobilien Management GmbH sub-group)

The following structured entities were consolidated for the first time in 2014 following the retrospective first-time application of IFRS 10:

- Weinberg Capital Ltd.
- Weinberg Funding Ltd.

The following companies were newly established in the 2014 financial year and are included in the financial statements by way of full consolidation:

- Ganghofer Straße München GmbH & Co. KG (LBBW Immobilien Management GmbH sub-group)
- Ganghofer Straße München Komplementär GmbH (LBBW Immobilien Management GmbH sub-group)
- LBBW Immobilien M_Eins Berlin GmbH (LBBW Immobilien Management GmbH sub-group)
- LBBW Immobilien Asset Management GmbH (LBBW Immobilien Management GmbH sub-group)
- Nymphenburger Straße München GmbH & Co. KG (LBBW Immobilien Management GmbH sub-group)
- Nymphenburger Straße München Komplementär GmbH (LBBW Immobilien Management GmbH sub-group)

In addition, the following subsidiaries were included in the group of consolidated companies for the first time in 2014:

- Centro Alemán de Industria y Comercio de México S.de R.L.de C.V.
- Dritte LBBW US Real Estate GmbH
- FLANTIR PROPERTIES LIMITED
- German Centre for Industry and Trade GmbH, Beteiligungsgesellschaft
- German Centre for Industry and Trade Pte. Ltd. Singapore
- LBBW Grundstücksverwaltungsgesellschaft mbH & Co. OHG Objekt Am Hauptbahnhof Stuttgart
- LBBW México S.A.

Eight joint ventures (31 December 2013: four joint ventures) and six associates were accounted for using the equity method in the consolidated financial statements (31 December 2013: seven associates).

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 following joint ventures were measured for the first time using the equity method in 2014:

- Alida Grundstücksverwaltungsgesellschaft mbH & Co. Vermietungs-KG
- OVG MK6 GmbH (LBBW Immobilien Management GmbH sub-group)
- Parcul Banatului SRL (see above)

The following company continues to be measured using the equity method, though it was classified as a joint venture (previously as an associate) in the financial year.

- SGB - Hotel - Verwaltung GmbH (LBBW Immobilien Management GmbH sub-group)

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 no longer any possibility for exercising a controlling influence or the associate no longer meets quantitative or qualitative materiality criteria.

A total of 143 subsidiaries (previous year: 176 subsidiaries and SPEs) were not included in the consolidated 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.

We refer to the list of shareholdings recognized in the annual report for the subsidiaries, structured entities, joint ventures and associates included in the consolidated financial statements, as well as the entities and equity investments omitted on grounds of insignificance (see Note 76).

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 interest« 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. 2014	31 Dec. 2013
USD	1.2166	1.3814
GBP	0.7819	0.8358
SGD	1.6074	1.7506
JPY	145.2400	145.0700
CZK	27.7370	27.3985
MXN	17.9235	18.0502
RUB	67.7521	45.3154
CHF	1.2024	1.2245

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 obligations are derecognized when the principal has been repaid.

In addition to the following information about the general accounting and valuation methods, further explanations, particularly in relation to IFRS 13, can be found in Notes 55 et seq.

Financial assets or financial liabilities measured at fair value through profit or loss.

This category in IAS 39 makes a distinction between financial instruments classified as held for trading (HfT) and financial instruments irrevocably designated at fair value through profit or loss at the time of acquisition (designated at fair value/fair value option (FVO)). Financial assets and liabilities in this category are measured at fair value through profit or loss.

Derivatives, money market transactions, securities and borrower's note loans acquired for the purpose of generating a profit from short-term fluctuations in market prices or dealing margins are classified as held for trading. This subcategory includes those derivative financial instruments (broken down into trading derivatives and economic hedging derivatives) that are used for trading purposes or are part of an economic hedge and do not satisfy IAS 39 requirements for hedge accounting. Financial instruments held for trading are reported in the balance sheet under »Financial assets measured at fair value through profit or loss« or »Financial liabilities measured at fair value through profit or loss«. Unrealized measurement gains/losses as well as realized gains and losses are recognized under »Net gains/losses from financial instruments measured at fair value through profit or loss«.

The »Financial instruments designated at fair value« subcategory includes financial instruments that were not acquired nor are held for trading purposes, but are measured at fair value through profit or loss. Financial instruments with embedded derivatives which are required to be separated but are not spun off are assigned to the fair value option. Additionally, the fair value option is applied to eliminate or significantly reduce inconsistencies in the measurement or recognition of financial instruments. Compound financial instruments mainly include LBBW's own bearer bonds and borrower's note loans issued, which are structured with interest rate, credit, equities and/or currency derivatives. When eliminating measurement inconsistencies for financial instruments designated at fair value, this concerns securities and associated liabilities which would otherwise have been subject to different measurement conventions than the associated derivatives. Financial instruments that qualify for the fair value option on initial recognition are reported in the balance sheet under »Financial assets measured at fair value through profit or loss« or »Financial liabilities measured at fair value through profit or loss«. The effects of changes in the fair value of the designated financial instruments are carried in »Net gains/losses of financial instruments measured at fair value through profit or loss«.

Current income from financial instruments held for trading and designated at fair value is reported in the net interest income item.

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 exists 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 the revaluation reserve in Other income. When a financial instrument is sold or in the event of impairment, the change in value accrued in the revaluation reserve is recorded under Net gains/losses from financial investments.

Silent partners' contributions with participation in losses are also categorized as financial investments (AfS) and are measured accordingly at fair value.

Derivatives.

At LBBW Group, derivatives are used to hedge balance sheet and/or off-balance-sheet items within the scope of its asset/ liability management, to hedge value fluctuations in, for example, fixed-income securities against changes in the market interest rate and to hedge credit spreads for corporate bonds. Derivatives are also used to hedge fluctuations in interest rates or other market prices for trading transactions. Furthermore, derivative financial transactions are performed as trading transactions.

As at the balance sheet date, the LBBW Group has the following types of derivatives in its balance sheet portfolio:

- Forwards and futures are contractual agreements for the purchase or sale of a specific financial instrument at a specified price and at a specified time in the future. Forwards are non-standardized contracts traded on the OTC market. Futures are contracts for standardized volumes and are traded on stock exchanges.
- Swaps are contractual agreements between two parties where one stream of interest payments and/or currencies is exchanged for another based on a specified nominal value in the case of certain events arising.
- Credit derivatives are contractual agreements between two parties where compensation payments are made by the protection seller subject to rating-related events. The protection buyer pays a premium.
- Options are contractual agreements that give the buyer the right to buy or sell a specific amount of a financial instrument at a specified price on a specified date or during a specified period of time.

Hedging transactions within the meaning of IAS 39 (hedge accounting) are reported under »Financial assets measured at fair value through profit or loss« (positive fair values on the assets side) or under »Financial liabilities measured at fair value through profit or loss« (negative fair values on the liabilities side).

Embedded derivatives.

Structured instruments are financial instruments that are composed of a host contract and one or more derivatives, where the embedded derivatives are a component of a contract and therefore not traded separately. In accordance with IAS 39, embedded derivatives are separated from the host contract and accounted for as standalone derivatives if all of the conditions below are satisfied:

- the structured instrument is not already measured at fair value through profit or loss,
- the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract and
- the terms of the embedded derivative would meet the definition of a derivative.

If a structured product is separated for accounting purposes, the host contract must be accounted for in accordance with its category and the embedded derivative accounted for separately in the held-for-trading category. The host contract is measured subject to the category to which this host contract would be assigned. Embedded derivatives that are separated from their host contract are measured at fair value with changes in value recognized in profit or loss. If the criteria for separation of the embedded derivatives are not met, the host contract and the embedded derivative must be recognized and measured as one asset or one liability.

Hedge accounting.

The hedge relationship is documented at the inception of the hedge. The documentation clearly identifies the hedged item and the hedging transaction, it encompasses the definition of the risk being hedged, the description of the hedging strategy and the risk management objective, and defines the method used to assess the hedging instrument's effectiveness. In accordance with the provisions of IAS 39, the hedge relationship must be expected to be highly effective at its inception and throughout the entire term. In addition, effectiveness must also regularly be reviewed retrospectively. A hedge relationship is considered to be effective if the ratio of the changes in value from the hedging transaction to the hedged part of the hedged item is between 80% and 125%. An ineffective hedge relationship must be reversed. A reversed hedge relationship can be redesignated for the remaining term provided it is assumed to be effective for the remaining term (prospective test).

If the requirements for hedge accounting in accordance with IAS 39.71 et 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 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.

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 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.

These transactions are measured in accordance with the underlying categories in IAS 39. Interest payments on repurchase agreements are recorded as interest income or interest expense. Any premiums/discounts to be accrued/deferred (or differences between the amount received on transfer and the amount to be repaid on return) are recorded in the relevant balance sheet item. Amounts written back from premiums/discounts are reported under »Net interest income«.

Only genuine repurchase agreements are currently made in the LBBW Group.

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 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«.

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.

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.

Based on the agreement dated 26 June 2009, LBBW arranged risk protection with the State of Baden-Württemberg in the form of a guarantee structure with effect from 30 June 2009. GPBW GmbH & Co. KG, a guarantee company of the State of Baden-Württemberg, originally granted LBBW a guarantee in the total amount of EUR 12.7 billion to hedge losses on set reference assets. The guarantee was originally made up of EUR 6.7 billion for an ABS portfolio (investor positions) of LBBW and various group companies and EUR 6.0 billion for a junior loan in the same amount provided by LBBW to Sealink Funding Ltd. (Sealink), a non-consolidated structured entity to which LBBW transferred certain risk-bearing structured ABS in connection with the acquisition of the former Landesbank Sachsen AG. The guarantee amount for the ABS portfolio was already reduced to EUR 5.4 billion as at 31 December 2013 through repayments and the sale of reference assets. By agreement dated 5 August 2014, the State of Baden-Württemberg approved the sale of LBBW's entire guaranteed ABS portfolio. As at 31 December 2014, a guarantee in the amount of EUR 4.5 billion still existed on the loan extended to Sealink. The guarantee meets the requirements for a financial guarantee within the meaning of IAS 39.9 and is therefore not measured as a derivative. The hedging effect of the guarantee will be netted directly against the valuation of the loan (net method). The fees incurred for providing the guarantee structure are reported in the »Guarantee commission for the State of Baden-Württemberg« single line item within the income statement.

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.

Due to the insignificance of the amounts involved, no fair values are presented in the Notes.

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 according to 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 recognizable 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 daily 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 (e.g. where forbearance measures were taken), 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/loss from companies 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 held for sale and disposal groups.

The carrying amount of long-term 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 or disposal groups classified as held for sale are recognized separately in the balance sheet item »Non-current assets held for sale and disposal groups« 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 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 LBBW Group identified the business segments Corporates and Financial Markets as CGUs during the year under review.

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 segment 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 of the segments. The value in use is the present value of the future cash flows expected to be derived from the relevant segments.

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. Past experience is also taken into account when profit forecasts are made.

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 for the first time 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 each segment, 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 amounts calculated for the segments, the important value drivers of each segment are reviewed at least once a year. 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. In connection with a company acquisition, customer relationships that have only limited contractual use were also capitalized. As in the previous year, these are amortized over six to 16 years on a straight line basis. Where indications of impairment exist, the recoverable amount is calculated and compared with the carrying amount. In the event of impairment, the amortization is adjusted over the remaining useful life of the intangible asset. Impairment losses are charged as write-downs through profit or loss. Amortization, write-downs and impairment losses on intangible assets, excluding goodwill, are recognized under »Administrative expenses« in the income statement. Income from reversals of impairment losses on intangible assets, excluding goodwill due to prohibition of reversal, is recognized under »Other operating income«.

Intangible assets are derecognized when sold. Gains and losses on disposal are the difference between the net proceeds from the disposal of the asset, if any, and its carrying amount. The profit or loss on the disposal of the asset is recognized through profit or loss at the date of derecognition. 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 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 property 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. For valuation purposes, a property (building) is defined as an independent strategic cash-generating unit. The expected cash flows generated per cash-generating unit are calculated assuming income from property management. For a detailed planning period of ten years, the cash generated is calculated as the net amount of payments received and payments made in connection with management of the property. A residual value for the cash-generating unit is forecast for the end of the planning period by capitalizing the cash generated in the tenth year as a perpetual annuity.

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

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

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

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. 2014	31 Dec. 2013
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 changed 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, impairment losses and write-downs are reported 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«. Leased property is carried at cost and depreciated over its economic life and/or written down as necessary if subject to permanent impairment or 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/IAS 38 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 tax.

IAS 12 governs the recognition and measurement of income tax. Current income tax liabilities and assets are calculated at current tax rates and carried at the expected payment or refund amount.

LBBW operates in several tax jurisdictions. The tax positions 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, they are included in the analysis on the basis of the management's assessment.

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 profit or loss 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. If temporary differences relate to items that are credited or charged directly to equity, the resulting deferred taxes are recognized under »Other income« in the subitems revaluation reserve or retained earnings.

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 inventories is calculated in accordance with IAS 2.10 et seq. using the weighted average cost formula, while the net realizable value is calculated in accordance with IAS 2.28 et seq. The 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. As the prerequisite for IAS 23 is not met in the current financial year, no interest on debt capital was recognized.

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 (defined benefit plans).

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.

For the LBBW merger 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 was also closed for new policies as at 31 December 2008 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), whereby 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 50 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 earliest age for the start of retirement in the statutory pension scheme is generally used (mainly 63 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 costs 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 carried by the Group company in question, the parent having relieved individual Group companies of some obligations.

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 development 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.

Provisions are also created for concluded and potential early retirement agreements; potential provisions are weighted with a probability of 30%.

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. Further information about the legal risks can be found in the risk report.

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«. Subordinated capital constitutes both equity and debt for commercial law and banking regulatory purposes. 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. This also applies to silent partners' contributions which are recognized as liable equity for regulatory purposes and within the meaning of the German Banking Act (KWG).

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 (the State of Baden-Württemberg, Sparkassenverband Baden-Württemberg (Savings Bank Association of Baden-Württemberg), the state capital Stuttgart, Landeskreditbank Baden-Württemberg – Förderbank – and Landesbeteiligungen Baden-Württemberg GmbH) in accordance with section 5 Gesetz über die Landesbank Baden-Württemberg (Landesbank Baden-Württemberg Act) in conjunction with section 3 of the ordinance of Landesbank Baden-Württemberg.

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 Other income) as well as actuarial gains/losses and the associated deferred taxes in connection with the recognition of provisions for pensions.

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 under »Other income« under the item 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. The revaluation reserve also includes the offsetting item from the recognition of deferred tax assets or liabilities on measurement differences in equity. In addition, the remeasurement gain or loss from cash flow hedges includes 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 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.

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 2014 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.

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 Baden-Württemberg, Saxony and Rhineland-Palatinate, key accounts and business with the public sector. On the financing side, the solutions offered range from classic through structured to off-balance-sheet financing. Services are also offered in the areas of international business, cash management, interest rate, currency and commodities management, asset and pension management. Products relating to the primary capital markets business for our customers in the Corporates segment and commercial real estate financing are also included here. The segment includes the following material subsidiaries: LBBW Immobilien Management GmbH, Süd-Kapitalbeteiligungs-Gesellschaft mbH, SüdLeasing GmbH, MKB Mittelrheinische Bank GmbH and SüdFactoring GmbH.
- The **Financial Markets** segment offers products for the management of interest rate, currency, credit risks and liquidity management. 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, investment, private banking and wealth management customers. The product range covers classic checking accounts, real estate financing, investment advice, and specialized services – particularly for wealth management customers – such as financial planning, asset management, securities account management and foundation management. Business activities connected with the Bank's function as the central bank for savings banks are also included in this segment.
- The **Credit Investment** segment essentially pools the Group's credit substitute business. In particular, this includes the Bank's own investments in plain vanilla bonds, structured securitizations and credit derivatives. It also includes the financing of the special-purpose entity Sealink Funding.
- The **Corporate Items** segment comprises all business activities not included in the segments mentioned above. In addition to treasury activities (especially the result generated from the central investment of own funds, lending/deposit-taking operations, IFRS specifics in relation to the refinancing and the management of strategic investments and cover funds), this notably consists of equity investments not included in the consolidated financial statements, costs incurred in association with the regulatory requirements and the costs of strategic projects for the Bank as a whole, as well as extraordinary income in connection with the restructuring plan approved by the EU (e.g. net income/expenses from restructuring).
- The Reconciliation/Consolidation column includes matters related solely to consolidation. In addition, this segment reconciles internal financial control data with external financial reporting.

Valuation methods.

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

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

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

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

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

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

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

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

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

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

A segment's return on equity (RoE) is calculated based on the ratio of net consolidated profit/loss before tax to average equity deemed to be tied up in accordance with regulatory requirements. The cost/income ratio (CIR) is calculated based on the ratio of administrative expenses to total operating income/ expenses (after allowances for losses) excluding allowances for losses on loans and advances and net gains/losses from financial investments, net income/expenses from investments accounted for using the equity method and from profit/loss transfer agreements.

In the 2014 financial year, marginal methodological improvements and more differentiated offsetting procedures further refined the income, cost and volume allocation to segments. In addition, there was an improvement in allocation to the respective segments of the effects of allowances for losses on loans and advances from adjustments to interest rates and unwinding. The prior-year amounts were adjusted to the new reporting to preserve comparability.

Furthermore, the segment reporting allocated the retrospective adjustments to the income statement and the balance sheet in accordance with IAS 8.42 and from the first-time application of IFRS 10 to the segments according to their responsibility.

Segment results by business area.

1 Jan. – 31 Dec. 2014 EUR million	Corporates	Financial Markets	Retail/ Savings Banks	Credit Investment	Corporate Items/ Reconciliation/ Consolidation	LBBW Group
Net interest income	1,198	311	340	– 81	110	1,878
Allowances for losses on loans and advances	– 105	1	– 6	3	3	– 104
Net fee and commission income	259	73	213	– 4	– 23	518
Net gains/losses from financial instruments measured at fair value through profit or loss	– 5	115	– 1	66	– 295	– 120
Net gains/losses from financial investments, net income/expenses from investments accounted for using the equity method and from profit/loss transfer agreements[1]	195	0	0	59	10	263
Other operating income/expenses [2]	122	17	12	0	– 49	101
Total operating income/expenses (after allowances for losses on loans & advances)	**1,664**	**518**	**557**	**43**	**– 244**	**2,536**
Administrative expenses	– 754	– 411	– 487	– 41	– 159	– 1,853
Operating result	**909**	**107**	**70**	**2**	**– 404**	**683**
Guarantee commission for the State of Baden-Württemberg	0	0	0	– 191	0	– 191
Impairment of goodwill	0	– 16	0	0	0	– 16
Net income/expenses from restructuring	– 3	0	0	0	3	1
Net consolidated profit/loss before tax	**907**	**90**	**70**	**– 190**	**– 400**	**477**
Income tax						– 43
Net consolidated profit/loss						**434**
Segment assets (EUR billion)[3]	75.2	101.6	32.5	14.9	42.0	266.2
Risk weighted assets (EUR billion)[4]	47.5	15.3	9.4	1.3	8.7	82.2
Tied-up equity (EUR billion)[4]	4.4	1.5	0.9	0.2	6.0	12.9
RoE (in %)[4]	**20.8**	**6.0**	**7.9**			**3.7**
CIR (in %)	**47.9**	**79.6**	**86.4**			**77.9**

1) The net gains/losses in the income statement from the segments accounted for using the equity method amounted to EUR 117 million in 2014 for the Corporates segment.
2) Net income/expenses from investment property is recognized as part of Other operating income/expenses.
3) The shares of investments accounted for using the equity method allocated to the segments amounted to EUR 302 million for the Corporates segment in 2014.
4) Information in accordance with CRR/CRD IV following full implementation.

1 Jan. – 31 Dec. 2013 EUR million	Corporates [1]	Financial Markets [1]	Retail/ Savings Banks	Credit Investment	Corporate Items/ Reconciliation/ Consolidation [1]	LBBW Group [1]
Net interest income	1,301	396	355	– 23	– 258	1,773
Allowances for losses on loans and advances	– 306	1	– 12	5	– 3	– 314
Net fee and commission income	321	92	216	– 5	– 78	545
Net gains/losses from financial instruments measured at fair value through profit or loss	36	152	0	186	– 6	369
Net gains/losses from financial investments, net income/expenses from investments accounted for using the equity method and from profit/loss transfer agreements [2]	1	0	0	– 121	137	16
Other operating income/expenses [3]	100	47	3	34	– 71	113
Total operating income/expenses (after allowances for losses on loans & advances)	**1,453**	**689**	**563**	**75**	**– 279**	**2,502**
Administrative expenses	– 708	– 367	– 457	– 64	– 178	– 1,774
Operating result	**746**	**322**	**106**	**11**	**– 457**	**728**
Guarantee commission for the State of Baden-Württemberg	0	0	0	– 300	0	– 300
Impairment of goodwill	– 3	0	0	0	0	– 3
Net income/expenses from restructuring	0	0	0	– 1	49	48
Net consolidated profit/loss before tax	**742**	**322**	**106**	**– 290**	**– 408**	**473**
Income tax						– 134
Net consolidated profit/loss						**339**
Segment assets (EUR billion) [4]	76.5	100.3	33.3	29.8	34.7	274.6
Risk weighted assets (cut-off date) (EUR billion) [5]	49.9	19.1	10.7	3.8	6.3	89.8
Tied-up equity (EUR billion) [5]	5.4	2.1	1.1	0.8	3.6	12.9
RoE (in %) [5]	**13.8**	**15.5**	**9.3**			**3.7**
CIR (in %)	**40.2**	**53.4**	**79.5**			**63.4**

1) Restatement of prior year amounts (see Note 2).
2) The net gains/losses in the income statement from investments accounted for using the equity method allocated to the Corporates segment amounted to EUR 6 million in 2013.
3) Net income/expenses from investment property is recognized as part of Other operating income/expenses.
4) The shares of investments accounted for using the equity method allocated to the segments amounted to EUR 297 million for the Corporates segment in 2013.
5) Information in accordance with CRR/CRD IV following full implementation.

Details on Corporate Items, Reconciliation and Consolidation.

EUR million	Corporate Items 1 Jan.– 31 Dec. 2014	Corporate Items 1 Jan.– 31 Dec. 2013	Reconciliation/Consolidation 1 Jan.– 31 Dec. 2014	Reconciliation/Consolidation 1 Jan.– 31 Dec. 2013	Corporate Items/ Reconciliation/ Consolidation 1 Jan.– 31 Dec. 2014	Corporate Items/ Reconciliation/ Consolidation 1 Jan.– 31 Dec. 2013 [1]
Net interest income	154	– 111	– 44	– 147	110	– 258
Allowances for losses on loans and advances	4	– 3	0	0	3	– 3
Net fee and commission income	1	1	– 24	– 80	– 23	– 78
Net gains/losses from financial instruments measured at fair value through profit or loss	9	– 39	– 305	33	– 295	– 6
Net gains/losses from financial investments, net income/expenses from investments accounted for using the equity method and from profit/loss transfer agreements[2]	11	5	– 1	133	10	137
Other operating income/expenses [3]	– 47	– 10	– 2	– 61	– 49	– 71
Total operating income/expenses (after allowances for losses on loans and advances)	**131**	**– 157**	**– 376**	**– 121**	**– 244**	**– 279**
Administrative expenses	– 159	– 178	0	0	– 159	– 178
Operating result	**– 28**	**– 336**	**– 376**	**– 121**	**– 404**	**– 457**
Net income/expenses from restructuring	3	49	0	0	3	49
Net consolidated profit/ loss before tax	**– 25**	**– 286**	**– 376**	**– 121**	**– 400**	**– 408**
Segment assets (EUR billion)[4]	42.0	45.9	0.0	– 11.3	42.0	34.7
Risk weighted assets (EUR billion)[5]	10.6	8.4	– 2.0	– 2.1	8.7	6.3
Tied-up equity (EUR billion)[5]	6.2	3.9	– 0.2	– 0.3	6.0	3.6

1) Restatement of prior year amounts (see Note 2).
2) The net gains/losses from companies accounted for using the equity method allocated to the segments amounted to EUR 117 million for the Corporates segment in 2014 (previous year: EUR 6 million).
3) Net income/expenses from investment property is recognized as part of Other operating income/expenses.
4) The shares of investments accounted for using the equity method allocated to the segments amounted to EUR 302 million for the Corporates segment in 2014 (previous year: EUR 297 million).
5) Information in accordance with CRR/CRD IV following full implementation.

Net consolidated profit/loss before tax at the LBBW Group amounted to EUR 477 million in the 2014 financial year, a marginal EUR 4 million improvement over the previous year. There were differentiated developments in the segments. At EUR 1,067 million, net consolidated profit/loss before taxes in the three operating segments Corporates, Financial Markets and Retail/Savings Banks was down on the previous year's figure of EUR 1,170 million. However, net consolidated profit/loss before tax in the Credit Investment segment amounted to EUR – 190 million, thus improving by EUR 100 million over the previous year. This was due in particular to reduced guarantee commission following the disposal in full of the guarantee portfolio. The Corporate Items segment also reported a positive performance with net consolidated profit/loss before tax of EUR – 25 million (previous year: EUR – 286 million).

Although net consolidated profit/loss before tax is in line with the previous year's figure, significantly lower results from financial instruments measured at fair value and higher administrative expenses – especially due to greater regulatory requirements and the restructuring of the IT architecture – resulted in a cost/income ratio (CIR) in the LBBW Group of 77.9% (previous year: 63.4%). LBBW Group's total assets were lower than the previous year, particularly due to the further reduction of EUR 8.4 billion in non-core banking activities to EUR 266.2 billion. LBBW Group's risk weighted assets (CRR/CRD IV) fell accordingly to EUR 82.2 billion in the 2014 financial year (previous year: EUR 89.8 billion).

Net consolidated profit/loss before tax in the Corporates segment improved considerably by EUR 165 million in the 2014 financial year to EUR 907 million. This was largely due to higher earnings from the disposal of equity investments/measurements in net gains/losses from financial investments and net income/expenses from investments accounted for using the equity method. This was offset by lower earnings due to the targeted reduction in non-core banking activities, the scaling back of risky and thus highly profitable large-volume exposures, as well as subdued credit demand. Thanks to the sound economic situation in the core markets, the high quality of the loan portfolio and the risk reduction, allowances for losses on loans and advances fell substantially to EUR – 105 million (previous year: EUR – 306 million). Administrative expenses increased, predominantly because of a rise to EUR – 754 million (previous year: EUR – 708 million) in expenses for projects for the Bank as a whole in conjunction with new regulatory requirements and the restructuring of the IT architecture. Owing to these costs and the differentiated earnings development in the segment, the CIR was 47.9% (previous year: 40.2%). As a result of the reduction in non-core banking activities, the segment assets fell marginally by EUR – 1.3 billion to EUR 75.2 billion. Due to this and an improvement in the portfolio quality, the risk weighted assets (CRR/CRD IV) declined to EUR 47.5 billion (previous year: EUR 49.9 billion).

The Financial Markets segment was burdened by the difficult market environment and reported net consolidated profit/loss before tax of EUR 90 million, thus remaining before the previous year's level (EUR 322 million). This was due in particular to the muted demand for investment and hedging products as a consequence of the flat yield curve and low volatility. In addition, conservative measurements of derivatives and credit valuation adjustments for transactions with the public sector or public-sector bodies led to a one-off charge in 2014. Positive earnings effects from the previous year from the reversal of provisions in conjunction with legal risks also impacted. In addition, administrative expenses rose significantly to EUR – 411 million (previous year: EUR – 367 million), above all due to higher expenses for projects for the bank as a whole in connection with new regulatory requirements and the restructuring of the IT architecture – which also includes the optimization of the system landscape of the Financial Markets segment. The write-down in full of goodwill allocated to the segment also burdened the result (EUR – 16 million). This resulted in a CIR of 79.6 % for 2014 (previous year: 53.4 %). At EUR 101.6 billion, the segment assets were practically at the previous year's level but were defined by the interest rate-related increase in the market value of the derivatives. Accordingly, the risk weighted assets (CRR/CRD IV) fell significantly in the 2014 financial year to EUR 15.3 billion (previous year: EUR 19.1 billion).

At EUR 70 million, net consolidated profit/loss before tax in the Retail/Savings Banks segment in 2014 fell short of the previous year (EUR 106 million), although performance was not uniform throughout. While income was almost unchanged from the previous year's level, the result was burdened by higher administrative expenses, due above all to higher expenses for projects for the Bank as a whole as a result of new regulatory requirements and the restructuring of the IT architecture. The new core banking system accounted for EUR 22 million of expenses in 2014 alone. This development resulted in a CIR of 86.4 % (previous year: 79.5 %). The segment assets fell marginally to EUR 32.5 billion. Risk weighted assets (CRR/CRD IV) for the segment amounted to EUR 9.4 billion in 2014 (previous year EUR 10.7 billion).

The Credit Investment segment was characterized by the reduction of volume and risk in the non-core banking business. The total guarantee portfolio as well as large parts of the unguaranteed credit substitute business was sold in the 2014 financial year. This was accompanied by a significant reduction in the guarantee provision for the risk shield and administrative expenses, resulting in net consolidated profit/loss before tax of EUR – 190 million (previous year: EUR – 290 million). As a result of the systematic efforts made to reduce risk, segment assets fell considerably to EUR 14.9 billion (previous year: EUR 29.8 billion). Due to the further reduction in the unguaranteed portfolio, the risk weighted assets (CRR/CRD IV) declined further in the 2014 financial year by EUR – 2.5 billion to EUR 1.3 billion.

As in the previous year, net consolidated profit/loss before tax in the Corporate Items segment was strongly influenced by non-recurring and one-off effects in 2014, and improved to EUR – 25 million, after EUR – 286 million in the previous year. Lower charges from IFRS specifics in connection with refinancing, lower interest expenses through the repayment of silent partners' contributions in April 2014 and an improvement in results from strategic investments in particular had a positive effect in the segment. At the same time, the reversal of provisions for restructuring measures resulted in lower income. Segment assets fell slightly to EUR 42.0 billion (previous year: EUR 45.9 billion. The risk weighted assets (CRR/CRD IV) increased in the 2014 financial year to EUR 10.6 billion (previous year: EUR 8.4 billion).

Reconciliation of segment results to the consolidated income statement.

In the 2014 financial year, the total of »Reconciliation/Consolidation« on the net consolidated profit/loss before tax amounted to EUR – 376 million (previous year: EUR – 121 million) and is essentially due to the following factors:

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

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. 2014 EUR million	Germany	Europe (excl. Germany)	America	Asia	Reconciliation/ consolidation	LBBW Group
Total operating income/expenses (after allowances for losses on loans & advances)	2,398	32	131	17	– 41	2,536
Net consolidated profit/loss before tax	439	– 21	98	0	– 41	477

1 Jan.– 31 Dec. 2013 EUR million	Germany	Europe (excl. Germany)	America	Asia	Reconciliation/ consolidation	LBBW Group
Total operating income/expenses (after allowances for losses on loans & advances)	2,333	43	114	23	– 11	2,502
Net consolidated profit/loss before tax	440	– 41	77	7	– 10	473

Notes to the income statement.

22. Net interest income.

The items Interest income and Interest expenses also include the interest and dividend income and the associated refinancing expenses of financial instruments held for trading and designated at fair value. In addition, the payments to typical silent partners are reported under »Interest expense« due to the classification of silent partners' contributions as debt in accordance with IAS 32.

EUR million	1 Jan.– 31 Dec. 2014	1 Jan.– 31 Dec. 2013
Trading derivatives	10,063	13,630
Lending and money market transactions	3,734	4,737
Hedging derivatives	1,435	1,798
Fixed-income securities and debentures	1,059	1,316
Early termination fees	83	90
Other	510	695
Interest income	**16,884**	**22,266**
Leasing business	450	443
Equities and other non-fixed-income securities	43	66
Equity investments and affiliates	38	24
Profit transfer agreements	8	8
Current income	**539**	**541**
Interest and current income	**17,423**	**22,807**
Trading derivatives	– 9,740	– 13,249
Hedging derivatives	– 1,624	– 2,098
Deposits	– 2,475	– 3,633
Securitized liabilities	– 920	– 1,118
Leasing business	– 105	– 75
Subordinated capital	– 279	– 382
Transfer of losses	– 2	– 2
Other	– 400	– 477
Interest expense	**– 15,545**	**– 21,034**
Total	**1,878**	**1,773**

The decline in interest income is mainly attributable to the further reduction in the volume of interest-bearing financial instruments and lower income from own investments as a consequence of a further decline in interest rates. Conversely, interest expense is lower, especially from trading and hedging derivatives, as a result of reduced derivatives volume.

In the case of financial assets in the LaR category on which valuation allowances were charged, interest of EUR 44 million (previous year: EUR 51 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).

During the financial year, interest expense of EUR – 6 million (previous year: EUR – 7 million) was recognized from the netting of treasury debentures in accordance with IAS 39.39 et seq.

Net interest income from financial assets and financial liabilities not measured at fair value through profit or loss comprises the following items:

EUR million	1 Jan.– 31 Dec. 2014	1 Jan.– 31 Dec. 2013
Interest income	4,520	6,441
Interest expense	– 3,445	– 5,168
Total	**1,075**	**1,273**

23. Allowances for losses on loans and advances.

EUR million	1 Jan.– 31 Dec. 2014	1 Jan.– 31 Dec. 2013
Reversal of allowances for losses on loans and advances	477	360
Net gains/losses from provisions for lending business	– 4	14
Recoveries on loans and advances already written off	16	17
Direct loan write-offs	– 97	– 98
Additions to allowances for losses on loans and advances	– 489	– 599
Other expenses for the lending business	– 7	– 8
Total	**– 104**	**– 314**

24. Net fee and commission income.

EUR million	1 Jan.– 31 Dec. 2014	1 Jan.– 31 Dec. 2013
Securities and custody business	189	194
Payments business	104	105
Brokerage business	110	110
Loans and guarantees[1)]	159	188
Other	72	70
Fee and commission income	**634**	**667**
Securities and custody business	– 68	– 74
Payments business	– 24	– 20
Loans and guarantees[1)]	– 10	– 15
Brokerage business	– 7	– 7
Leasing business	– 3	– 3
Other	– 4	– 3
Fee and commission expenses	**– 116**	**– 122**
Total	**518**	**545**

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

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 totals EUR 73 million (previous year: EUR 79 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. 2014	1 Jan.– 31 Dec. 2013
Net trading gains/losses	45	329
Net gains/losses from financial instruments designated at fair value	– 155	37
Net gains/losses from hedge accounting	– 10	3
Total	**– 120**	**369**

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. 2014	1 Jan.– 31 Dec. 2013
Rating-induced transactions	664	65
Equity transactions	83	121
Foreign exchange transactions	– 6	25
Economic hedging derivatives	– 1	– 102
Interest rate transactions	– 726	285
Gains/losses from foreign exchange/commodity products	31	– 65
Total	**45**	**329**

The decline in net trading gains/losses is due in particular to the positive earnings contributions from spread tightening in the previous year, which were significantly lower in the 2014 financial year. In addition, declining customer-oriented capital markets business due to falling demand for hedging products had negative implications for net trading gains/losses. New capital guaranteed products in the 2014 financial year led to a shift in results between rating-induced and interest rate transactions.

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 2,582 million (previous year: EUR – 450 million). These are offset by currency translation differences of EUR – 2,588 million (previous year: EUR 475 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 expenses from assets designated at fair value are reported under Net interest income. The fee and commission payments associated with purchases and sales are reported under »Net fee and commission income«.

EUR million	1 Jan.– 31 Dec. 2014	1 Jan.– 31 Dec. 2013
Realized gains/losses	– 23	10
Unrealized gains/losses	– 132	27
Total	**– 155**	**37**

In addition to the improvement of LBBW's own credit quality, the financial liabilities designated to unrealized gains/losses include a valuation loss of EUR – 15 million (previous year: EUR – 82 million).

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. 2014	1 Jan.– 31 Dec. 2013
Portfolio fair value hedge	– 7	5
of which hedged items	273	– 27
of which hedging instruments	– 280	32
Micro fair value hedge	1	– 2
of which hedged items	318	– 250
of which hedging instruments	– 317	248
Cash flow hedge	– 4	0
of which hedged items	– 4	0
Total	**– 10**	**3**

26. Net gains/losses from financial investments.

Net gains/losses from financial investments includes disposal and remeasurement (including impairment) results on securities from the loans and receivables (LaR) and available for sale (AfS) categories, as well as on equity investments and shares in non-consolidated companies and investments not accounted for using the equity method. This item also includes reversals of impairment losses on debt instruments following credit-based write-downs to the amount of the amortized cost.

EUR million	1 Jan.– 31 Dec. 2014	1 Jan.– 31 Dec. 2013
Net gains/losses on disposal	102	102
of which securities	5	65
of which equity investments	97	37
Impairment	– 13	– 21
Reversals of impairment losses	1	7
Net gains/losses from financial investments (AfS)	**90**	**88**
Net gains/losses on disposal	62	– 41
of which securities	62	– 41
Impairment	0	– 30
Reversals of impairment losses	1	49
Net gains/losses from reimbursement rights (guarantee)	– 7	– 56
Net gains/losses from financial investments (LaR)	**56**	**– 78**
Total	**146**	**10**

Net gains/losses from AfS financial investments increased especially due to positive securities disposal transactions as a result of the further reduction in volume and risk in portfolios that no longer constitute part of the core business area (credit substitute business).

Net gains/losses from reimbursement claims (guarantee) result from a derecognition of the claim to reimbursement in the course of the reduced securitization portfolio, which is taken into account in the income statement

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

EUR million	1 Jan.– 31 Dec. 2014	1 Jan.– 31 Dec. 2013
Current income – associates	108	42
Reversals of impairment losses	31	12
Current income – joint ventures	5	2
Income from investments accounted for using the equity method	**144**	**56**
Impairment – associates	– 26	– 37
Impairment – joint ventures	– 1	– 13
Expenses from investments accounted for using the equity method	**– 27**	**– 50**
Total	**117**	**6**

28. Other operating income/expenses.

EUR million	1 Jan.– 31 Dec. 2014	1 Jan.– 31 Dec. 2013
Disposal of inventories	255	942
Reversal of other provisions	137	215
Revenues from property services	21	19
Income from cost refunds by third parties	34	34
Management of other property portfolios	4	17
Operating leases	25	25
Fixed assets and intangible assets	3	5
Miscellaneous operating income	105	133
Other operating income	**584**	**1,390**
Disposal of inventories	– 226	– 844
Addition to other provisions	– 96	– 190
Impairment of inventories	– 1	– 9
Management of other property portfolios	– 2	– 5
Operating leases	– 5	– 5
Miscellaneous operating expenses	– 157	– 253
Other operating expenses	**– 487**	**– 1,306**
Total	**97**	**84**

The income and expenses from the disposal of inventories primarily result from the sale of land and buildings, as well as development measures. The decline is largely as a result of the large number of projects realized in the previous year.

29. Net income/expenses from investment property.

EUR million	1 Jan.– 31 Dec. 2014	1 Jan.– 31 Dec. 2013
Rental income	47	35
Income from investment property	**47**	**35**
Operating expenses for leased properties	– 10	– 7
Expenses from investment property	**– 10**	**– 7**
Net gains/losses from fair value measurement	– 37	1
Net gains/losses from currency translation	4	0
Total	**4**	**29**

The decline in net income/expenses from investment property in the 2014 financial year is largely due to measurement effects, as a declining fair value had to be recognized at the end of the year for the property on a subsidiary that was consolidated for the first time.

30. 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. 2014	1 Jan.– 31 Dec. 2013
Wages and salaries	– 712	– 717
Expenses for pensions and benefits	– 131	– 135
Social security contributions	– 113	– 113
Other staff costs	– 56	– 50
Staff costs	**– 1,012**	**– 1,015**
IT costs	– 279	– 198
Legal and consulting expenses	– 117	– 113
Expenses from operating leases	– 31	– 57
Cost of premises	– 43	– 52
Association and other contributions	– 30	– 29
Advertising, public relations and representation costs	– 25	– 27
Audit costs	– 14	– 13
Other administrative expenses	– 209	– 171
Other administrative expenses	**– 748**	**– 660**
Amortization and write-downs of intangible assets[1)]	– 42	– 46
Depreciation and write-downs of property and equipment[1)]	– 51	– 53
Depreciation, amortization and write-downs	**– 93**	**– 99**
Total	**– 1,853**	**– 1,774**

1) This includes scheduled and unscheduled write-downs. The partial amount of the unscheduled write-downs can be found in Notes 41 and 43

The increase in »Other administrative expenses« is particularly due to higher expenses for the compliance with regulatory requirements.

Other administrative expenses of EUR – 209 million (previous year: EUR – 171 million) include expenses of EUR – 82 million (previous year: EUR – 67 million) for the bank levy charged in Germany. Other administrative expenses also include office and motor vehicle expenses of EUR – 16 million (previous year: EUR – 17 million) as well as postage, transportation and communication costs of EUR – 17 million (previous year: EUR – 18 million).

For further explanations on leasing business, please see Note 71.

Expenses for pensions and other benefits include:

EUR million	1 Jan.– 31 Dec. 2014	1 Jan.– 31 Dec. 2013
Expenses for defined benefit obligations	**– 123**	**– 125**
Net interest income from defined benefit plans	– 79	– 75
Current service cost	– 44	– 52
Other income and expenses, including income from the release of provisions for pension plans	0	2
Other expenses for pensions and benefits	**– 5**	**– 6**
Expenses for defined contribution obligations	**– 3**	**– 4**
Total	**– 131**	**– 135**

In addition to the expenses for pensions, LBBW Group paid EUR – 69 million in the financial year (previous year: EUR – 67 million) into the German pension fund for employees and recorded this as an expense under »Social security contributions«.

The fee of EUR – 14 million (previous year: EUR – 13 million) for audit costs comprises the following items:

EUR million	1 Jan.– 31 Dec. 2014	1 Jan.– 31 Dec. 2013
Audit services	– 9	– 8
Audit-related services	– 1	– 1
Other services	– 4	– 4
Total	**– 14**	**– 13**

31. Net income/expenses from restructuring.

EUR million	1 Jan.– 31 Dec. 2014	1 Jan.– 31 Dec. 2013
Reversal of provisions for restructuring measures	4	51
Additions to restructuring provisions	– 3	– 3
Total	**1**	**48**

32. Income tax.

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

EUR million	1 Jan.– 31 Dec. 2014	1 Jan.– 31 Dec. 2013
Current income tax in the reporting period	– 75	– 50
Current income tax from previous years	31	– 58
Current income tax	**– 44**	**– 108**
of which decrease in actual income tax expense from utilization of previously unrecognized loss carryforwards and tax credits	0	62
Deferred income tax	**1**	**– 26**
of which deferred income tax expense/income from change in temporary differences	132	50
of which deferred tax expense/income from change in tax rates	0	– 5
of which deferred tax expense/income from change in write-downs	– 22	0
of which decrease in deferred income tax expense from previously unrecognized prior period temporary differences	20	13
of which decrease in deferred income tax expense from previously unrecognized loss carryforwards and tax credits	1	48
Total	**– 43**	**– 134**

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

EUR million	1 Jan.– 31 Dec. 2014	1 Jan.– 31 Dec. 2013
Net consolidated profit/loss before tax	**477**	**473**
Applicable tax rate	30.42 %	30.34 %
Expected income tax	**– 145**	**– 143**
Tax effects		
from non-deductible operating expenses	– 107	– 92
from value adjustments	– 18	85
from taxes from the previous year recorded in the financial year	8	– 138
from permanent tax effects	179	79
from changes in tax rates	2	– 4
from differing tax rates affecting on deferred taxes as shown in profit or loss	– 4	– 7
from other differences	1	– 5
from tax-free income	41	91
Total	**– 43**	**– 134**

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: 14.51%) depending on the relevant multiplier (Hebesatz). This results in a total domestic tax rate of 30.42% for the Group (previous year: 30.34%).

The impact of non-deductible operating expenses include, in particular, tax effects arising from the disposal of equity investments, from the bank levy and from »Interbranch expenses«. In addition, the tax effects from the takeover of a portfolio from LBBW Lux S.A. by LBBW Bank Germany were taken into account in 2014.

The tax effects of value adjustments position comprises largely EUR – 20 million (previous year: EUR – 40 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 3 million (previous year: EUR 125 million). Tax-free income includes, among other things, effects from the disposal of Group companies and from special tax provisions for interest expenses/income from the New York branch and tax-free dividend income.

The financial year's permanent (on-balance sheet) tax effects include in particular income from equity investments in companies accounted for using the equity method and the effects from the disposal of the guarantee portfolio.

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. 2014	31 Dec. 2013
Loss and interest carryforwards (total)	7,252	7,689
of which loss and interest carryforwards for which deferred tax assets were created	3,222	3,900
of which loss and interest carryforwards for which provisions were created	166	65
of which loss and interest carryforwards for which no deferred tax assets were recognized	3,864	3,724
of which expire in 2016 and thereafter	94	303
of which non-forfeitable	3,770	3,421
Unrecognized temporary differences at the balance sheet date	89	163

Deferred tax assets of 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	2014	2013	2014	2013
Assets				
Loans and advances (including allowances for losses on loans and advances)	504	924	– 119	– 210
Financial assets measured at fair value through profit or loss	4,929	2,857	– 1,744	– 129
Financial investments	1,362	2,960	– 112	– 206
Non-current assets held for sale and disposal groups	0	4	0	0
Intangible assets	4	6	– 2	– 28
Property and equipment/investment property	28	28	– 97	– 189
Other assets	2	104	– 201	– 6
Equity and liabilities				
Liabilities	48	53	– 2,460	– 4,358
Financial liabilities measured at fair value through profit or loss	1	7	– 2,326	– 2,030
Provisions	506	362	– 2	– 4
Other liabilities	215	156	– 15	– 20
Loss and interest carryforwards	510	613	0	0
Outside basis differences	0	0	– 2	0
Net amount	– 7,014	– 7,011	7,014	7,011
Total	**1,095**	**1,063**	**– 66**	**– 169**
Change in the balance from deferred taxes	**130**	**– 202**		
of which changes recognized in profit or loss	1	– 26		
of which from revaluation reserve (financial investments - gains/losses on financial assets (AfS))	– 27	– 153		
of which measurement gains/losses from cash flow hedges (fair value changes)	– 1	0		
of which retained earnings (provisions - actuarial gains/losses)	168	– 27		
of which other changes recognized directly in equity	– 11	4		

Disposals and additions to deferred taxes from first-time consolidation and deconsolidation are reported under »Other changes recognized directly in equity«.

No deferred tax liabilities were recognized for taxable temporary differences of EUR 5 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.

33. Cash and cash equivalents.

EUR million	31 Dec. 2014	31 Dec. 2013
Balances with central banks	1,803	1,969
Cash	133	135
Debt instruments issued by public-sector institutions and bills of exchange	0	52
Total	**1,936**	**2,156**

Balances with central banks include balances with Deutsche Bundesbank of EUR 1,525 million (previous year: EUR 282 million).

34. Loans and advances to banks.

Breakdown by business type.

EUR million	31 Dec. 2014	31 Dec. 2013
Public-sector loans	28,058	32,417
Current account claims	982	1,516
Securities repurchase transactions	4,277	7,439
Other loans	3,072	3,190
Borrower's note loans	764	1,150
Overnight and term money	195	231
Mortgage loans	109	137
Other receivables	967	1,545
Total	**38,424**	**47,625**
of which to central counterparties	780	1,561

Breakdown by region.

EUR million	31 Dec. 2014	31 Dec. 2013
Banks within Germany	31,333	38,972
Banks outside Germany	7,091	8,653
Total	**38,424**	**47,625**

35. Loans and advances to customers.

Breakdown by business type.

EUR million	31 Dec. 2014	31 Dec. 2013
Other loans	29,336	31,117
Mortgage loans	30,030	30,741
Public-sector loans	20,332	20,644
Receivables from finance leases	4,991	5,268
Transmitted loans	3,396	3,250
Securities repurchase transactions	11,513	6,171
Current account claims	3,688	3,595
Overnight and term money	3,804	4,260
Borrower's note loans	2,428	2,533
Other receivables	3,677	3,874
Total	**113,195**	**111,453**
of which to central counterparties	2,778	80

Breakdown by region.

EUR million	31 Dec. 2014	31 Dec. 2013
Customers within Germany	79,066	81,955
Customers outside Germany	34,129	29,498
Total	**113,195**	**111,453**

The item »Other loans« contains mainly syndicated loans in the amount of EUR 10,132 million (previous year: EUR 10,866 million), mortgage financing as well as unsecured portions of mortgage loans and loans backed by a public-sector guarantee.

For explanations on leasing business, see Note 71.

36. 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:

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

EUR million	Specific/collective valuation allowance: Loans and advances to banks	Specific/collective valuation allowance: Loans and advances to customers	Specific/collective valuation allowance: of which from finance leases	Portfolio valuation allowance: Loans and advances to banks	Portfolio valuation allowance: Loans and advances to customers	Portfolio valuation allowance: of which from finance leases
Balance as at 31 December 2012	14	2,322	175	8	161	29
Restatement of prior year amounts	0	15	0	0	0	0
Balance as at 1 January 2013	**14**	**2,337**	**175**	**8**	**161**	**29**
Utilization	– 2	– 494	– 41	0	0	0
Additions	0	481	35	5	108	9
Reversals	– 10	– 248	– 22	– 6	– 92	– 15
Change in present value brought about by the change in remaining lifetime (unwinding)	0	– 51	– 2	0	0	0
Changes resulting from exchange rate fluctuations and other changes	0	– 8	3	0	– 2	4
Balance as at 31 December 2013	**2**	**2,017**	**148**	**7**	**175**	**27**

Please refer to Note 50 for explanations on provisions for credit risks. For explanations on leasing business, see Note 71.

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

EUR million	31 Dec. 2014	31 Dec. 2013
Trading assets	76,043	65,390
Financial assets designated at fair value	1,001	1,316
Positive fair values from hedging derivatives	2,840	3,399
Total	**79,884**	**70,105**

Trading assets and financial assets designated at fair value.

EUR million	Trading assets		Financial assets designated at fair value	
	31 Dec. 2014	31 Dec. 2013	31 Dec. 2014	31 Dec. 2013
Debentures and other fixed-income securities	19,999	20,012	288	623
Money market instruments	1,675	1,064	0	0
Bonds and debentures	18,324	18,948	288	623
Equities and other non-fixed-income securities	808	683	223	240
Equities	199	225	10	10
Investment units	609	458	200	215
Other securities	0	0	13	15
Other	24,317	22,422	490	453
Borrower’s note loans	4,883	4,229	442	396
Other money market transactions	18,323	17,458	21	0
Other loans and receivables			27	57
Miscellaneous	1,111	735	0	0
Positive fair values from derivative financial instruments	30,919	22,273		
Total	**76,043**	**65,390**	**1,001**	**1,316**

The increase in trading assets is defined mainly by changes in the derivative financial instruments. The decline in interest rates seen in the 2014 financial year impacts on their measurement.

This item contains EUR 3,141 million (previous year: EUR 6,460 million) in total collateral provided with the protection buyer's right to resell or pledge.

The securities in the trading assets and securities designated at fair value are classified based on their marketability and stock exchange listing status as follows:

EUR million	Trading assets		Financial assets designated at fair value	
	31 Dec. 2014	31 Dec. 2013	31 Dec. 2014	31 Dec. 2013
Marketable and listed securities	17,675	18,614	82	216
Marketable and unlisted securities	3,132	2,081	425	641
Non-marketable securities	0	0	4	6
Total	**20,807**	**20,695**	**511**	**863**

Trading assets and money market instruments, bonds and debentures designated at fair value are divided between public-sector and other issuers as follows:

EUR million	Trading assets		Financial assets designated at fair value	
	31 Dec. 2014	31 Dec. 2013	31 Dec. 2014	31 Dec. 2013
Public-sector issuers	5,676	5,999	28	25
Other issuers	14,323	14,013	260	598
Total	**19,999**	**20,012**	**288**	**623**

Positive fair values from hedging derivatives.

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

EUR million	31 Dec. 2014	31 Dec. 2013
Positive fair values from portfolio fair value hedges	2,121	2,822
Positive fair values from micro fair value hedges	719	577
Total	**2,840**	**3,399**

The drop in positive fair values from hedging derivatives was due to the reduction in the volume of the designated underlying transaction as well as the lower volume of derivatives in the fair value hedge accounting portfolio, among other things.

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

EUR million	31 Dec. 2014	31 Dec. 2013
Assets		
Derivative hedges on financial investments	1	5
AfS category	1	5
Derivative hedges on other assets	0	54
Equity and liabilities		
Derivative hedges on deposits from banks	41	49
Derivative hedges on deposits from customers	169	167
Derivative hedges on securitized liabilities	156	175
Derivative hedges on subordinated liabilities	352	127
Derivative hedges on portfolio fair value hedges	2,121	2,822
Total	**2,840**	**3,399**

38. Financial investments.

EUR million	31 Dec. 2014	31 Dec. 2013
Debentures and other fixed-income securities	27,924	39,246
Money market instruments	479	106
Bonds and debentures	27,445	39,133
Refund claim (guarantee)	0	7
Equities and other non-fixed-income securities	1	3
Equities	1	0
Investment units	0	1
Other securities	0	2
Equity investments	908	888
Shares in affiliates	217	523
Total	**29,050**	**40,660**

The decrease in financial investments in the financial year under review resulted in particular from the sale of the guarantee portfolio and from maturities of bonds and debentures that exceeded new business (see Note 6).

Financial investments includes EUR 4,757 million (previous year: EUR 2,575 million) in total collateral provided where the protection buyer has the right to resell or pledge.

The securities held as financial investments are classified as follows by marketability and stock exchange listing items:

EUR million	31 Dec. 2014	31 Dec. 2013
Marketable and listed securities	19,781	21,618
Marketable and unlisted securities	8,125	17,630
Non-marketable securities	19	1
Total	**27,925**	**39,249**

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

EUR million	31 Dec. 2014	31 Dec. 2013
Public-sector issuers	14,022	18,369
Other issuers	13,902	20,870
Total	**27,924**	**39,239**

Changes in the non-current financial investments in the 2014 and 2013 financial years are shown in the table below:

EUR million	Equity investments	Shares in affiliates	Total
Historical cost			
Balance as at 31 December 2013	726	537	1,263
Additions	186	2	188
Disposals	– 164	– 18	– 182
Changes from foreign currency translation	11	0	11
Reclassifications	– 3	0	– 3
Changes in the scope of consolidation	18	– 209	– 191
Balance as at 31 December 2014	**774**	**312**	**1,086**
Depreciation, amortization and write-downs			
Balance as at 31 December 2013	– 286	– 158	– 444
Write-downs in the financial year	– 11	– 2	– 13
Disposals	101	1	102
Changes from foreign currency translation	– 10	0	– 10
Reclassifications	2	0	2
Changes in the scope of consolidation	– 6	29	23
Balance as at 31 December 2014	**– 210**	**– 130**	**– 340**
Changes in fair value			
Balance as at 31 December 2013	448	144	592
Changes in fair value	– 24	2	– 22
Changes from foreign currency translation	2	– 2	0
Transfers to income statement	– 85	1	– 84
Changes in the scope of consolidation	3	– 110	– 107
Balance as at 31 December 2014	**344**	**35**	**379**
Carrying amount as at 31 December 2014	**908**	**217**	**1,125**

EUR million	Equity investments	Shares in affiliates	Total
Historical cost			
Balance as at 31 December 2012	784	630	1,414
Additions	8	0	8
Disposals	– 17	– 28	– 45
Changes from foreign currency translation	– 4	0	– 4
Changes in the scope of consolidation	0	– 65	– 65
Transfer to non-current assets held for sale and disposal groups	– 45	0	– 45
Balance as at 31 December 2013	**726**	**537**	**1,263**
Depreciation, amortization and write-downs			
Balance as at 31 December 2012	– 283	– 191	– 474
Write-downs in the financial year	– 16	– 2	– 18
Changes from foreign currency translation	4	0	4
Reclassifications	1	16	17
Changes in the scope of consolidation	0	19	19
Transfer to non-current assets held for sale and disposal groups	8	0	8
Balance as at 31 December 2013	**– 286**	**– 158**	**– 444**
Changes in fair value			
Balance as at 31 December 2012	470	148	618
Changes in fair value	– 30	5	– 25
Changes from foreign currency translation	– 1	0	– 1
Transfers to income statement	10	– 6	4
Changes in the scope of consolidation	0	– 3	– 3
Transfer to non-current assets held for sale and disposal groups	– 1	0	– 1
Balance as at 31 December 2013	**448**	**144**	**592**
Carrying amount as at 31 December 2013	**888**	**523**	**1,411**

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

EUR million	31 Dec. 2014	31 Dec. 2013
Associates	296	274
Joint ventures	6	23
Total	**302**	**297**

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

As a result of the restructuring plan for the reorganization of the LBBW Group from 2009, LBBW is obliged to sell various equity investments. Negotiations about the same of non-current assets and disposal groups were conducted or concluded for a few equity investments or subsidiaries not yet disposed of. In addition, further equity investments were reported as held-for-sale.

Compared with 31 December 2014, the following changes arose in relation to the non-current assets classified as held for sale and disposal groups:

- In the third quarter of 2014, the sale of LBBW Bank CZ a.s., Prague, which was already recognized as a disposal group at year-end 2013 and in the 2014 half-yearly financial statements. The company was assigned to the Corporates reporting segment until its disposal.
- In the 2014 financial year, LBBW entered into negotiations for the sale of a company accounted for using the equity method and a share in a company accounted for using the equity method. The sale is expected to be concluded during 2015. This affects the Corporates reporting segment.
- In addition, negotiations were entered into in the 2014 financial year about the same of individual properties. The sale is expected to be concluded during 2015. This affects the Corporates Items reporting segment.

The reclassification of non-current assets in accordance with IFRS 5 resulted in an impairment requirement of EUR 2 million.

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

EUR million	31 Dec. 2014	31 Dec. 2013
Assets		
Cash and cash equivalents	0	8
Loans and advances to banks	0	175
Loans and advances to customers	0	478
Allowances for losses on loans and advances	0	– 1
Financial assets measured at fair value through profit or loss	0	5
Financial investments	0	55
Shares in investments accounted for using the equity method	76	0
Investment property	16	2
Property and equipment	1	0
Income tax assets	0	4
Other assets	0	1
Total	**93**	**727**
Equity and liabilities		
Deposits from banks	0	23
Deposits from customers	0	880
Financial liabilities measured at fair value through profit or loss	0	8
Other liabilities	0	4
Total	**0**	**915**
Contingent liabilities and other obligations	0	118

The valuation of assets and liabilities held for sale and of disposal groups is generally carried out in accordance with the provisions 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.

41. Intangible assets.

The changes in intangible assets are shown in the following tables for 2014 and 2013:

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 31 December 2013	633	933	33	31	6	1,636
Changes in the scope of consolidation	17	0	0	0	0	17
Additions	33	0	17	0	2	52
Transfers	22	0	– 22	0	1	1
Disposals	– 22	0	0	0	0	– 22
Balance as at 31 December 2014	**683**	**933**	**28**	**31**	**9**	**1,684**
Amortization and impairment losses/reversals of impairment losses						
Balance as at 31 December 2013	– 575	– 537	0	– 26	– 4	– 1,142
Changes in the scope of consolidation	– 17	0	0	0	0	– 17
Scheduled amortization	– 40	0	0	– 1	– 1	– 42
Unscheduled write-downs	0	– 16	0	0	0	– 16
Disposals	22	0	0	0	0	22
Balance as at 31 December 2014	**– 610**	**– 553**	**0**	**– 27**	**– 5**	**– 1,195**
Carrying amounts						
Balance as at 1 January 2014	58	396	33	5	2	494
Balance as at 31 December 2014	73	380	28	4	4	489

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 31 December 2012	662	933	20	44	1	1,660
Currency translation differences	– 1	0	0	– 1	0	– 2
Additions	22	0	29	0	1	52
Transfers	8	0	– 16	0	4	– 4
Disposals	– 19	0	0	0	0	– 19
Transfer to non-current assets held for sale and disposal groups	– 39	0	0	– 12	0	– 51
Balance as at 31 December 2013	**633**	**933**	**33**	**31**	**6**	**1,636**
Amortization and impairment losses/reversals of impairment losses						
Balance as at 31 December 2012	– 587	– 534	0	– 37	0	– 1,158
Currency translation differences	0	0	0	1	0	1
Scheduled amortization	– 43	0	0	– 2	– 1	– 46
Unscheduled write-downs	0	– 3	0	0	0	– 3
Transfers	3	0	0	0	– 3	0
Disposals	19	0	0	0	0	19
Transfer to non-current assets held for sale and disposal groups	33	0	0	12	0	45
Balance as at 31 December 2013	**– 575**	**– 537**	**0**	**– 26**	**– 4**	**– 1,142**
Carrying amounts						
Balance as at 1 January 2013	75	399	20	7	1	502
Balance as at 31 December 2013	58	396	33	5	2	494

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 84 million (previous year: EUR 71 million) have a remaining useful life of more than 12 months.

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:

EUR million	Corporates		Financial Markets		Total	
	2014	2013	2014	2013	2014	2013
Balance as at 1 January	380	383	16	16	396	399
Impairment	0	– 3	– 16	0	– 16	– 3
Balance as at 31 December	**380**	**380**	**0**	**16**	**380**	**396**
Gross amount of goodwill	917	917	16	16	933	933
Cumulative impairment	– 537	– 537	– 16	0	– 553	– 537

There is no goodwill in segments other than those presented above.

The LBBW Group originally defined the previous (business) segments Corporates I, Corporates II, International Business and Financial Markets as CGUs. Following completion of the EU restructuring, a distinction will no longer be made between Corporates I, Corporates II and International Business within the scope of the operative management. Rather goodwill shall be monitored on the basis of the Corporates segment. On account of the restructuring, an impairment test of the goodwill at the level of Corporates I and Corporates II is no longer possible without prejudice.

Due to the change in the reporting structure, an impairment test was conducted before and after the amalgamation of Corporates. There was no need for write-downs in either case.

The impairment test for the Financial Markets segment in the first half of 2014 used a capitalization rate of 10.19% or 9.19% as a perpetual annuity. The impairment test for the Financial Markets segment yielded an achievable amount of EUR 2,316 million, so that the allocated goodwill of EUR 16 million was completely written off. This was attributable to the sustained low interest rate environment, low market volatility and widespread reluctance among customers.

A capitalization rate used in the impairment tests for the Corporates I segment is 9.94% or 8.19% as a perpetual annuity. In 2013, a capitalization rate of 10.11% for the Corporates I segment would have been used or 8.36% as a perpetual annuity. The capitalization rates shown are post-tax interest rates. Pre-tax capitalization rates in accordance with IAS 36.55 have been calculated retrospectively.

Sensitivity considerations were initiated in relation to the goodwill allocated to the cash-generating unit. In validating the value in use determined for the cash-generating unit, specific external factors and important value drivers are reviewed regularly. Sensitivity considerations were initiated in relation to the goodwill allocated to the cash-generating unit. The main assumptions, comprising the discounting rate and profit forecasts, were subject to a sensitivity review.

In view of the fact that the recoverable amount was considerably higher than the carrying amount, management is of the opinion that realistic changes to important assumptions for calculating the recoverable amount of the goodwill-bearing Corporates segment would not result in any impairment.

The cash flow forecast of the cash-generating unit is based on the planning drawn up by LBBW at the end of 2014. The key assumptions of the planning are a historically low interest rate environment and a stable economic situation with moderate GDP growth in Germany. Growth is also assumed for the eurozone, albeit more subdued than in Germany. Looking at the regulatory plans, LBBW does not expect to see any fundamental changes, but 2015 will be characterized by the implementation of stricter regulatory requirements and a swift reaction to the changes in general conditions that these will yield. The economic market parameters are prepared by LBBW Research.

42. Investment property.

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

EUR million	2014	2013
Carrying amount as at 31 December	**481**	**516**
Restatement of prior year amounts	0	– 25
Carrying amount as at 1 January	**481**	**491**
Additions	4	3
Disposals	– 4	– 11
Changes in the scope of consolidation	148	14
Transfer to non-current assets held for sale or disposal groups	– 16	– 4
Currency translation differences	53	0
Changes in fair value from assets	– 37	1
Transfers out of/into inventories and property and equipment	80	– 2
Other reclassifications	– 4	– 11
Carrying amount as at 31 December	**705**	**481**

An investment property of EUR 701 million (previous year: EUR 481 million) has a remaining useful life of more than 12 months.

43. 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 31 December 2013	703	97	313	3	11	210	1,337
Changes in the scope of consolidation	588	0	54	2	0	93	737
Currency translation differences	0	0	1	0	0	0	1
Additions	4	1	11	3	0	0	19
Transfers	– 17	0	1	– 2	0	– 63	– 81
Disposals	– 3	– 4	– 21	– 1	0	– 3	– 32
Transfers to non-current assets held for sale and disposal groups	– 5	0	0	0	0	– 2	– 7
Balance as at 31 December 2014	**1,270**	**94**	**359**	**5**	**11**	**235**	**1,974**
Amortization and impairment losses/reversals of impairment losses							
Balance as at 31 December 2013	– 319	– 76	– 204	0	– 7	– 85	– 691
Changes in the scope of consolidation	– 490	0	– 52	0	0	– 76	– 618
Scheduled amortization	– 26	– 4	– 17	0	0	– 4	– 51
Unscheduled write-downs	– 3	0	0	0	0	– 2	– 5
Transfers	1	0	0	0	0	3	4
Disposals	2	4	18	0	0	2	26
Transfers to non-current assets held for sale and disposal groups	3	0	0	0	0	2	5
Balance as at 31 December 2014	**– 832**	**– 76**	**– 255**	**0**	**– 7**	**– 160**	**– 1,330**
Carrying amounts							
Balance as at 1 January 2014	384	21	109	3	4	125	646
Balance as at 31 December 2014	438	18	104	5	4	75	644

CONSOLIDATED FINANCIAL STATEMENTS

EUR million	Land and buildings	Technical equipment and machinery	Operating and office equipment	Advance payments and assets under construction	Leased assets under finance leases	Leased assets under operating leases	Total
Historical cost							
Balance as at 31 December 2012	702	119	490	4	10	205	1,530
Restatement of prior year amounts	20	0	0	0	0	0	20
Balance as at 1 January 2013	**722**	**119**	**490**	**4**	**10**	**205**	**1,550**
Changes in the scope of consolidation	0	0	1	0	0	1	2
Currency translation differences	– 2	0	– 1	0	0	0	– 3
Additions	4	1	11	2	1	0	19
Transfers	– 5	0	5	– 3	0	5	2
Disposals	– 3	– 4	– 61	0	0	– 1	– 69
Transfers to non-current assets held for sale and disposal groups	– 13	– 19	– 132	0	0	0	– 164
Balance as at 31 December 2013	**703**	**97**	**313**	**3**	**11**	**210**	**1,337**
Amortization and impairment losses/reversals of impairment losses							
Balance as at 31 December 2012	– 301	– 89	– 343	0	– 6	– 81	– 820
Scheduled amortization	– 23	– 5	– 25	0	– 1	– 4	– 58
Transfers	1	0	0	0	0	– 1	0
Disposals	3	3	56	0	0	1	63
Transfers to non-current assets held for sale and disposal groups	1	15	108	0	0	0	124
Balance as at 31 December 2013	**– 319**	**– 76**	**– 204**	**0**	**– 7**	**– 85**	**– 691**
Carrying amounts							
Balance as at 1 January 2013	421	30	147	4	4	124	730
Balance as at 31 December 2013	384	21	109	3	4	125	646

Amortization and write-downs are recognized in the »Depreciation of property and equipment« item under »Administrative expenses«.

Property and equipment in the amount of EUR 512 million (previous year: EUR 641 million) have a remaining useful life of more than 12 months.

44. Income tax assets.

EUR million	31 Dec. 2014	31 Dec. 2013
Current income tax assets	219	179
of which in Germany	205	167
of which outside Germany	14	12
Deferred income tax assets	1,095	1,059
Total	**1,314**	**1,238**

Of the current income tax assets, EUR 219 million is due within one year (previous year: EUR 179 million). Deferred income tax assets amounting to EUR 1,095 million have a term of over 12 months (previous year: EUR 1,059 million).

For a detailed description of income tax assets, see Note 32.

45. Other assets.

EUR million	31 Dec. 2014	31 Dec. 2013
Inventories	380	433
Receivables from tax authorities	30	47
Receivables from investment income received in the same period	9	5
Other miscellaneous assets	619	125
Total	**1,038**	**610**

Considerably more transactions were concluded in the Client Clearing unit in the financial year, leading to an increase in »Other miscellaneous assets«.

»Other assets« include assets amounting to EUR 26 million (previous year: EUR 35 million) with a remaining useful life of more than 12 months.

No borrowing costs were capitalized (further details can be found in Note 18).

The inventories can be broken down as follows:

EUR million	31 Dec. 2014	31 Dec. 2013
Land and land rights, with unfinished buildings	150	198
Work in progress and development measures	88	77
Land and land rights, with finished buildings	17	17
Land and land rights, without buildings	29	50
Other inventories	96	91
Total	**380**	**433**

The carrying amount of inventories recognized at fair value less costs to sell is EUR 12 million (previous year: EUR 10 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«.

46. Deposits from banks.

Breakdown by business type.

EUR million	31 Dec. 2014	31 Dec. 2013
Securities repurchase transactions	11,834	14,259
Borrower's note loans	8,133	10,067
Overnight and term money	2,856	3,256
Public-sector registered covered bonds issued	1,738	2,238
Current account liabilities	1,920	1,972
Mortgage-backed registered covered bonds issued	468	506
Other liabilities	25,365	25,747
Total	**52,314**	**58,045**
of which to central counterparties	5,798	4,884

»Other liabilities« contain mainly transmitted loans.

Breakdown by region.

EUR million	31 Dec. 2014	31 Dec. 2013
Banks within Germany	46,954	50,607
Banks outside Germany	5,360	7,438
Total	**52,314**	**58,045**

The decline in deposits from banks is largely due to a decline in securities repurchase transactions and maturing debentures, as well as registered covered bonds, which exceed the volume of new business.

47. Deposits from customers.

Breakdown by business type.

EUR million	31 Dec. 2014	31 Dec. 2013
Current account liabilities	31,925	30,607
Overnight and term money	8,815	18,020
Borrower's note loans	6,828	8,833
Securities repurchase transactions	7,337	8,382
Public-sector registered covered bonds issued	5,532	6,785
Savings deposits	7,337	7,218
Mortgage-backed registered covered bonds issued	1,077	1,062
Other liabilities	1,023	1,146
Total	**69,874**	**82,053**
of which to central counterparties	5,929	5,991

Breakdown by region.

EUR million	31 Dec. 2014	31 Dec. 2013
Customers within Germany	58,158	71,199
Customers outside Germany	11,716	10,854
Total	**69,874**	**82,053**

The decline in deposits from customers is attributable mainly to a reduction in overnight and term money. A large proportion of this change is due to the reduction in the cash collateral pledged in connection with a guarantee extended by the State of Baden-Württemberg.

48. Securitized liabilities.

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

EUR million	31 Dec. 2014	31 Dec. 2013
Issued debentures	42,876	49,374
Mortgage-backed covered bonds	4,535	4,369
Public-sector covered bonds	7,456	10,577
Other bonds	30,885	34,428
Other securitized liabilities	1,355	1,319
Total	**44,231**	**50,693**

The decline in securitized liabilities is mainly due to maturities of public covered bonds and bearer debentures.

See Note 69 for explanations regarding issuing activity.

49. Financial liabilities measured at fair value through profit or loss.

EUR million	31 Dec. 2014	31 Dec. 2013
Trading liabilities	66,206	47,970
Financial liabilities designated at fair value	4,963	5,734
Negative fair values from hedging derivatives	4,077	3,947
Total	**75,246**	**57,651**

Trading liabilities and financial liabilities designated at fair value.

	Trading liabilities		Financial liabilities designated at fair value	
EUR million	31 Dec. 2014	31 Dec. 2013	31 Dec. 2014	31 Dec. 2013
Negative fair values from trading derivatives and economic hedging derivatives	29,877	19,486		
Money market transactions	26,575	24,975	78	53
Securitized liabilities	9,397	2,864	2,475	2,933
Other financial liabilities	0	1	553	615
Delivery obligations from short sales of securities	324	603		
Borrower's note loans	33	41	1,184	1,431
Subordinated liabilities			673	702
Total	**66,206**	**47,970**	**4,963**	**5,734**

The rise in trading liabilities is due in particular to the increase in the number of money market transactions and securitized liabilities. The development of interest rates also contributed to the higher negative fair values from derivatives.

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. Interest rate swaps and cross-currency interest rate swaps were designated as hedging instruments.

EUR million	31 Dec. 2014	31 Dec. 2013
Negative fair values from portfolio fair value hedges	2,502	2,661
Negative fair values from micro fair value hedges	1,575	1,286
Total	**4,077**	**3,947**

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

EUR million	31 Dec. 2014	31 Dec. 2013
Assets		
Derivative hedges on loans and advances to banks	6	17
Derivative hedges on loans and advances to customers	358	285
Derivative hedges on financial investments	1,178	916
AfS category	1,178	915
LaR category	0	1
Equity and liabilities		
Derivative hedges on deposits from customers	9	10
Derivative hedges on securitized liabilities	24	58
Derivative hedges on portfolio fair value hedges	2,502	2,661
Total	**4,077**	**3,947**

50. Provisions.

EUR million	31 Dec. 2014	31 Dec. 2013
Provisions for pensions	2,875	2,288
Provisions for litigation and recourse risks	231	448
Provisions for lending business	79	75
Other personnel-related provisions	97	86
Other provisions	173	236
Total	**3,455**	**3,133**

Provisions of EUR 195 million (previous year: EUR 512 million) have 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. 2014	1 Jan.– 31 Dec. 2013
Net interest income from defined benefit plans	– 79	– 75
Current service cost including the release of pension liabilities	– 45	– 50
Net additions to provisions for pensions and other post-employment benefit obligations	**– 124**	**– 125**

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

EUR million	2014	2013
Balance as at 31 December	2,529	2,512
Adjustment to the previous year's figures including changes in the scope of consolidation[1]	0	101
Balance as at 1 January	**2,529**	**2,613**
Changes recognized in the income statement	132	134
Interest expense/income	87	82
Current service cost including the release of pension liabilities	45	52
Changes recognized in other income	558	– 88
Actuarial gains(+)/losses(-) from changes to the demographic assumptions	– 11	2
Actuarial gains(+)/losses(-) from changes to the financial assumptions	543	– 157
Experience-based actuarial gains(+)/losses(-)	24	67
Changes in exchange rates	2	0
Other changes	– 102	– 130
Pension benefits paid	– 102	– 98
Payments within the scope of settlements	0	– 29
Business combinations/disposals	0	– 3
Balance as at 31 December	**3,117**	**2,529**

1) The adjustment in the 2013 financial year is largely as a result of the reclassification of the pecuniary aid provisions in the pension obligations.

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

EUR million	1 Jan.– 31 Dec. 2014	1 Jan.– 31 Dec. 2013
Present value of the pension obligations for active employers	1,081	826
Present value of the pension obligations for candidates	483	385
Present value of the pension obligations for retirees	1,553	1,318
Total	**3,117**	**2,529**

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

EUR million	1 Jan.– 31 Dec. 2014	1 Jan.– 31 Dec. 2013
Present value of the accrued but non-vested pension obligations	197	163
Present value of the vested pension obligations	2,920	2,366
Total	**3,117**	**2,529**

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

EUR million	1 Jan.– 31 Dec. 2014	1 Jan.– 31 Dec. 2013
Present value of the pension obligations based on conditional benefits	3	3
Present value of the pension obligations based on future salary increases	194	161
Present value of the pension obligations based on other benefits	2,920	2,365
Total	**3,117**	**2,529**

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

in %	31 Dec. 2014	31 Dec. 2013
Fluctuation	4.50	4.50
Discount rate	2.15	3.50
Expected rate of salary increase	1.85	2.00
Expected rate of pension increase	1.70	1.90
Career dynamics	0.50	0.50

Life expectancy, marriage probability and disability were calculated using the 2005 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. 2014 EUR million	Increase of 0.5 % pp	Decrease of 0.5 % pp
Defined benefit pensions		
Change in calculatory interest rate	– 231	262
Change in expected income development	94	– 86
Change in expected pension growth	63	– 57
Change in career dynamics	7	– 6
Change in fluctuation	– 1	1

31 Dec. 2013 EUR million	Increase of 0.5 % pp	Decrease of 0.5 % pp
Defined benefit pensions		
Change in calculatory interest rate	– 169	190
Change in expected income development	83	– 77
Change in expected pension growth	37	– 34
Change in career dynamics	5	– 5
Change in fluctuation	– 1	1

A one-year increase in life expectancy would lead to a EUR 103 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 consists of the following at year-end:

EUR million	31 Dec. 2014	31 Dec. 2013
Time deposits and other cash and cash equivalents	7	4
Level 1 measurement	3	3
Level 2 measurement	4	1
Securities	232	231
Securities - equity instruments	58	53
Equity instruments from banks	39	39
Level 1 measurement	39	39
Equity instruments from other financial corporations	19	14
Level 2 measurement	19	14
Securities - debt instruments	174	178
Debt instruments from financial institutions	167	166
Level 1 measurement	167	166
Debt instruments from other financial corporations	7	12
Level 2 measurement	7	12
Real Estate	3	2
Investment funds	0	4
Level 2 measurement	0	4
Plan assets	**242**	**241**

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

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

EUR million	2014	2013
Balance as at 31 December	241	219
Adjustment of prior year values	0	27
Balance as at 1 January	241	246
Changes recognized in the income statement	8	8
Interest income/expenses	8	8
Changes recognized in other income	6	1
Income/expense from the plan assets (less the income included in net interest income)	5	1
Changes in exchange rates	1	0
Other changes	– 13	– 14
Employer contributions	1	1
Pension benefits paid	– 14	– 12
Business combinations/disposals	0	– 3
Balance as at 31 December	**242**	**241**

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. 2014	31 Dec. 2013
Present value of defined benefit obligations	3,117	2,529
Present value of defined benefit obligations from unfunded plans	2,711	2,197
Present value of defined benefit obligations from wholly or partially funded plans	406	332
Fair value of plan assets	– 242	– 241
Obligations not covered by plan assets	2,875	2,288
Provisions for pensions	**2,875**	**2,288**

The weighted average maturity of the defined benefit obligation is 16.33 years (previous year: 14.98 years).

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 risks	Other provisions	Total
Balance as at 31 December 2013	86	75	448	237	846
Utilization	– 43	0	– 182	– 69	– 294
Reversals	– 5	– 37	– 135	– 14	– 191
Additions	52	41	100	20	213
Transfers	4	1	– 1	– 5	– 1
Discounting and compounding of non-current provisions	0	– 1	– 2	3	0
Changes not recognized in profit or loss	3	0	1	0	4
Currency translation differences	0	0	2	1	3
Balance as at 31 December 2014	**97**	**79**	**231**	**173**	**580**

The other personnel-related provisions include mainly provisions for early retirement and partial retirement.

Plan assets amounting to EUR 4 million were set up as at the balance sheet date for the obligation for settlement arrears from partial retirement contracts. The provisions for settlement arrears from partial retirement contracts amounting to EUR 4 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 387 million were discounted.

The Group is 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.

51. 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. 2014	31 Dec. 2013
Current income tax liabilities	69	58
of which provisions for income tax	63	55
of which income tax liabilities to tax authorities	6	3
Deferred income tax liabilities	66	169
Total	**135**	**227**

Of the current income tax liabilities, EUR 69 million is due within one year (previous year: EUR 58 million). Deferred income tax liabilities amounting to EUR 66 million have a term of over 12 months (previous year: EUR 169 million).

For a detailed description of income tax liabilities, see Note 32.

52. Other liabilities.

EUR million	31 Dec. 2014	31 Dec. 2013
Liabilities from		
Other taxes	194	191
Employment	44	47
Deliveries and services	82	51
Non-controlling interests	3	6
Finance leases	5	8
Advances received	63	172
Other miscellaneous liabilities	396	267
Total	**787**	**742**

Other liabilities with maturities of more than 12 months amounted to EUR 35 million (previous year: EUR 39 million).

For a detailed description of leasing business, see Note 71.

53. 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. 2014	31 Dec. 2013
Typical silent partners' contributions	1,458	2,687
Subordinated liabilities	4,510	4,027
Capital generated from profit-participation rights	261	389
Total	**6,229**	**7,103**

As a consequence of the loss reported in the 2009 financial statements prepared using German GAAP rules (HGB), the profit-participation rights and silent partners' contributions participated in the loss. The capital in the profit-participation rights and the silent partners' contributions, as well as the restitution of the suspended distributions, were completely refilled between 2010 and 2014.

The decline in subordinated capital was largely due to the prepayment of guarantor's silent partners' contributions in the amount of EUR 1 billion (nominal amount). Additional liabilities of EUR 251 million (nominal capital) were also repaid. These are offset by EUR 500 million (nominal capital) from the issue of a subordinated bond. Furthermore, EUR 223 million in liabilities from recoveries to the holders of silent partners' contributions and profit-participation rights were distributed in 2014, which were carried in subordinated capital the previous annual financial statements at the discounted amount.

Measurement and premiums and discounts are reported in subordinated capital.

Subordinated capital of EUR 1,517 million (previous year: EUR 940 million) will mature during the next 12 months.

Subordinated liabilities.

The following subordinated liabilities (incl. subordinated liabilities designated at fair value) exist at the balance sheet date, broken down according to product type.

	31 Dec. 2014			31 Dec. 2013		
EUR million	Capital	Interest accrued in year under review	Total	Capital	Interest accrued in year under review	Total
Subordinated DM/EUR registered securities/bonds	2,230	32	2,262	1,847	28	1,875
Subordinated DM/EUR borrower's note loans	1,375	15	1,390	1,449	16	1,465
Subordinated foreign currency bonds	1,097	17	1,114	1,005	15	1,020
Total	**4,702**	**64**	**4,766**	**4,301**	**59**	**4,360**

The table above includes subordinated registered securities and bonds designated at fair value with nominal capital in the amount of EUR 477 million (previous year: EUR 514 million).

The interest expense on subordinated liabilities (incl. subordinated liabilities designated at fair value) is EUR – 177 million (previous year: EUR – 188 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 past 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. 2014 EUR million	Year of issue	Nominal amount	Interest rate in % p. a.	Maturity
Participation rights in bearer form				
	2001	85	6.85	31 Dec. 2014
	2010[1]	17	4.22	31 Dec. 2016
Registered participation rights				
Companies		297	4.77 to 7.22	up to 2022
Banks		10	4.82	31 Dec. 2020
Total amount		**409**		

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 137 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 – 32 million (previous year: EUR – 66 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 2014.

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. 2014 EUR million	31 Dec. 2013 EUR million
14 Jul. 1999 – 31 Dec. 2013	0	0.0	16.4
16 Apr. 1999 – 31 Dec. 2014	6.73– 9.25	89.0	89.0
31 Dec. 1993 – 31 Dec. 2014 (terminated)	1.61	50.8	50.8
15 Feb. 1994 – 31 Dec. 2015 (terminated)	1.73	6.0	6.0
23 Nov. 1999 – 31 Dec. 2015	7.76	40.0	40.0
31 Dec. 1993 – 31 Dec. 2016[2)] (terminated)	4.96	64.7	64.7
8 Dec. 1999 – 31 Dec. 2016	7.8 – 8.0	64.5	64.5
15 Nov. 1999 – 31 Dec. 2019	7.87	10.0	10.0
25 Apr. 1999 – 31 Dec. 2019	5.05	30.0	30.0
5 Jan. 2000 – 31 Dec. 2020	8.25	30.0	30.0
19 May 1999 – 31 Dec. 2024	7.11	20.0	20.0
13 Jul. 2001 – 31 Dec. 2026[3)]	2.66	15.0	15.0
1 Oct. 1999 – 31 Dec. 2029	8.03 – 8.20	49.0	49.0
10 Mar. 2000 – 31 Dec. 2030	8.05 – 8.25	10.0	10.0
2 Jul. 2001 – 31 Dec. 2031	8.46	20.0	20.0
Silent partners' contributions with a fixed end of term		**499.0**	**515.4**

Expiry of the fixed interest period	Dividend payout as a percentage of the nominal amount	Nominal amount 31 Dec. 2014 EUR million	31 Dec. 2013 EUR million
4 Apr. 2014[4)]	3.93	0.0	405.3
31 Dec. 2015[5)]	4.69	19.5	19.5
26 June 2017	2.83	200.0	200.0
28 Oct. 2021[4)]	3.92	3.2	408.5
30 Oct. 2021[4)]	3.92	86.3	275.6
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[6)]	4.56	300.0	300.0
Silent partners' contributions without a fixed end of term		**845.3**	**1,845.2**
Total		**1,344.3**	**2,360.6**

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 will be 1.36 %.
3) Annual adjustment of interest rates.
4) (Partial) prepayment of the capital.
5) Part of termination notices: EUR 3.4 million.
6) 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 – 70 million (previous year: EUR – 128 million) for the financial year.

54. Equity.

EUR million	31 Dec. 2014	31 Dec. 2013
Share capital	3,484	3,484
Capital reserve	8,240	8,240
Retained earnings	920	1,214
Other income	111	104
Unappropriated profit/loss	434	339
Equity attributable to shareholders	13,189	13,381
Equity attributable to non-controlling interests	19	18
Total	**13,208**	**13,399**

In the year under review LBBW's fully paid-in ordinary share capital was held by the State of Baden-Württemberg with 25.0 % (previous year: 25.0 %), the city of Stuttgart with 19.0 % (previous year: 19.0 %), the Savings Bank Association of Baden-Württemberg (including equity investments held by savings banks in Baden-Württemberg) with 40.5 % (previous year: 40.5 %), Landeskreditbank Baden-Württemberg with 2.0 % (previous year: 2.0 %) and Landesbeteiligungen Baden-Württemberg GmbH with 13.5 % (previous year: 13.5 %).

The item »Equity« still includes accumulated actuarial gains and losses amounting to EUR – 681 million (previous year: EUR – 295 million), as well as taxes recognized directly in equity totaling EUR 345 million (previous year: EUR 195 million).

Notes on financial instruments.

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

55. 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. It need not necessarily be the market on which LBBW conducts most of its trading activities. 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 procedures must therefore include all factors that a market participant would take into account when fixing prices.

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

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

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

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

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

Class	Financial instruments
Assets carried at fair value	
Trading assets	Currency options, interest rate swaps and interest rate options, credit derivatives, equity/index options, commodity options, forward rate agreements, securities, forward security agreements, money market transactions, borrower's note loans
Financial assets designated at fair value	Securities, forward security agreements, money market transactions, borrower's note loans, loans,
Positive fair values from hedging derivatives	Interest rate swaps and cross-currency interest rate swaps
Financial investments (AfS)	Securitizations, securities, forward security 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 held for sale and disposal groups	According to the respective balance-sheet item
Liabilities measured at fair value	
Trading liabilities	Currency options, interest rate swaps and interest rate options, credit derivatives, equities, index options, commodity options, money market transactions, forward rate agreements
Financial liabilities designated at fair value	Own bearer bonds and borrower's note loans issued
Negative fair values from hedging instruments	Interest rate swaps and cross-currency interest rate swaps
Liabilities carried at amortized cost	
Deposits from banks	Loans, borrower's note loans, term money, money market transactions, securities repurchase transactions
Deposits from banks – of which finance leases	Finance lease agreements
Deposits from customers	Loans, borrower's note loans, term money, money market transactions, securities repurchase transactions
Deposits from customers – of which finance leases	Finance lease agreements
Securitized liabilities	Own bearer bonds and borrower's note loans issued
Other liabilities – of which finance leases	Finance lease agreements
Subordinated capital	Bonds, participation certificates
Liabilities from disposal groups	According to the respective balance-sheet item
Irrevocable loan commitments	Credit line agreements

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

Exchange-traded derivatives are valued using market prices.

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

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

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

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

In addition, parts of the complex credit derivatives are measured using correlations regarding probabilities of default, which are calculated on a monthly basis from consensus prices for standard transactions by a price service agency. As these correlations are classified as being non-observable, a Day One Reserve is set aside for the credit derivatives to which this measurement method is applied.

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

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

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 impaired securitizations, or such for which there are not sufficient market prices (Level III) are calculated using valuation models. These are standard market models based on the discounted cash flow method. Some of the parameters used by these models cannot be observed on the markets. In this case, the fair value is influenced by the assumptions and estimates made by LBBW. These assumptions are chosen with the greatest possible care by the back office of the LBBW Group. The parameters to be calculated comprise defaults, recovery rates and prepayment ratios. These are calculated per asset class. Investment bank and rating agency research as well as own observations or derivations from the transactions are used to determine these parameters. The projections are calculated on the basis of the expectations regarding the macroeconomic environment taking into account the available historical data.

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

- Recognition of credit risks in relation to receivables and counterparty default risks from OTC derivatives (CVA).
- Adjustment to mid-price based valuations on the use of bid/ask prices, for example, as close-out valuation adjustments for OTC interest rate and credit derivatives.
- Weaknesses in the models and/or parameters used, for example, so-called model valuation adjustments for specific equities, interest rate and credit derivatives.
- Day one profit or loss for specific complex derivatives.
- Adjustments for using market prices from markets that are not active (Level II/Level III) for interest-bearing securities.

When calculating the fair value of listed equity holdings that are allocated to the available-for-sale category, prices traded on an active market are used, if available. For non-listed companies or if no prices traded on an active market are available, the fair value is measured via a valuation method. The LBBW Group measures fair value in these cases mainly by means of the net income value, the discounted cash flow or the net asset value method. The valuation method is selected on the basis of a fixed decision tree. The fair value of real estate leasing special-purpose vehicles is generally measured on the basis of the DCF method. The net income value approach is generally used for the measurements of all other major equity investments. If the application of the net income value approach is associated with considerable uncertainty or cannot be depended on to be reliable due to a lack of data, the net asset value method is used, provided the equity investment's business activities are stable.

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

56. Fair value of financial instruments.

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

Assets.

EUR million	31 Dec. 2014 Carrying amount	31 Dec. 2014 Fair value	31 Dec. 2013 Carrying amount	31 Dec. 2013 Fair value
Cash and cash equivalents	**1,936**	**1,936**	**2,156**	**2,156**
Assets carried at fair value				
Trading assets	76,043	76,043	65,390	65,390
Derivatives	30,919	30,919	22,273	22,273
Currency-related derivatives	4,068	4,068	2,690	2,690
Interest rate-related derivatives	26,272	26,272	18,829	18,829
Credit derivatives	192	192	258	258
Share/index derivatives	301	301	418	418
Commodity-related and other derivatives	86	86	78	78
Equity instruments	808	808	683	683
Securities	19,999	19,999	20,012	20,012
Receivables	24,317	24,317	22,422	22,422
Financial assets designated at fair value	1,001	1,001	1,316	1,316
Equity instruments	223	223	240	240
Securities	288	288	623	623
Loans and receivables	490	490	453	453
Positive fair values from hedging derivatives	2,840	2,840	3,399	3,399
Interest rate derivatives	2,747	2,747	3,296	3,296
Cross-currency interest rate swaps	93	93	103	103
Financial investments (AfS)	22,979	22,979	21,451	21,451
Equity instruments	1,121	1,121	1,408	1,408
Securities	21,858	21,858	20,043	20,043
Assets carried at amortized cost				
Loans and advances to banks after allowances for losses on loans and advances	38,415	40,026	47,616	48,728
Public-sector loans	28,056	29,428	32,416	33,361
Securities repurchase transactions	4,277	4,477	7,439	7,496
Other receivables	6,082	6,121	7,761	7,871
Loans and advances to customers after allowances for losses on loans and advances	111,610	118,377	109,261	110,404
Public-sector loans	20,302	23,194	20,620	22,179
Mortgage loans	29,754	33,103	30,442	32,597
Securities repurchase transactions	11,513	11,526	6,171	6,176
Other receivables	50,041	50,554	52,028	49,452
of which finance leases	4,856	5,227	5,093	5,469
Financial investments (LaR)	6,071	6,090	19,209	19,173
Equity instruments	5	5	6	6
Securitizations	66	66	5,526	4,879
Government bonds	5,551	5,562	12,760	12,760
Other securities	449	457	917	1,528
Non-current assets held for sale and disposal groups	**0**	**0**	**720**	**720**

Equity and liabilities.

EUR million	31 Dec. 2014 Carrying amount	31 Dec. 2014 Fair value	31 Dec. 2013 Carrying amount	31 Dec. 2013 Fair value
Liabilities measured at fair value				
Trading liabilities	66,206	66,206	47,970	47,970
Derivatives	29,877	29,877	19,486	19,486
Currency-related derivatives	4,584	4,584	2,502	2,502
Interest rate-related derivatives	24,101	24,101	15,959	15,959
Credit derivatives	495	495	391	391
Share/index derivatives	630	630	593	593
Commodity-related and other derivatives	67	67	41	41
Delivery obligations from short sales of securities	324	324	603	603
Deposits	26,608	26,608	25,016	25,016
Securitized liabilities	9,397	9,397	2,864	2,864
Other financial liabilities	0	0	1	1
Financial liabilities designated at fair value	4,963	4,963	5,734	5,734
Deposits	1,473	1,473	1,706	1,706
Securitized liabilities	2,937	2,937	3,413	3,413
Other financial liabilities	553	553	615	615
Negative fair values from hedging instruments	4,077	4,077	3,947	3,947
Interest rate derivatives	4,005	4,005	3,835	3,835
Cross-currency interest rate swaps	72	72	112	112
Liabilities carried at amortized cost				
Deposits from banks	52,314	54,561	58,045	60,181
Securities repurchase transactions	11,834	12,030	14,259	14,256
Borrower's note loans	8,133	8,491	10,067	10,402
Other liabilities	32,347	34,040	33,719	35,523
of which finance leases	0	295	0	289
Deposits from customers	69,874	71,786	82,053	83,742
Current account liabilities	31,925	32,037	30,607	30,656
Borrower's note loans	6,828	7,320	8,833	9,219
Registered covered bonds	6,609	7,728	7,847	8,580
Securities repurchase transactions	7,337	7,343	8,382	8,385
Other liabilities	17,175	17,358	26,384	26,902
Securitized liabilities	44,231	45,352	50,693	51,579
Other liabilities – of which finance leases	5	5	8	8
Subordinated capital	6,229	6,453	7,103	6,993
Subordinated liabilities	4,510	4,723	4,027	4,061
Capital generated from profit-participation rights	261	319	389	440
Silent partners' contributions	1,458	1,411	2,687	2,492
Liabilities from disposal groups	**0**	**0**	**911**	**911**

See Note 40 for the detailed breakdown and valuation of assets held for sale and disposal groups.

57. Fair value hierarchy.

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

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

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

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

Assets.

EUR million	Prices traded on active markets (Level I)		Valuation method – on the basis of externally observable parameters (Level II)		Valuation method – on the basis of not externally observable parameters (Level III)	
	31 Dec. 2014	31 Dec. 2013	31 Dec. 2014	31 Dec. 2013	31 Dec. 2014	31 Dec. 2013
Cash and cash equivalents	**126**	**135**	**1,801**	**1,969**	**9**	**52**
Assets carried at fair value						
Trading assets	7,887	12,801	67,557	51,999	599	590
Derivatives	299	301	30,034	21,394	586	578
Currency-related derivatives	0	0	3,934	2,583	134	107
Interest rate-related derivatives	0	0	25,823	18,383	449	446
Credit derivatives	0	0	192	255	0	3
Share/index derivatives	258	283	40	113	3	22
Commodity-related and other derivatives	41	18	45	60	0	0
Equity instruments	199	225	609	458	0	0
Securities	7,389	12,274	12,610	7,738	0	0
Receivables	0	1	24,304	22,409	13	12
Financial assets designated at fair value	0	33	951	1,199	50	84
Equity instruments	0	0	198	199	25	41
Securities	0	33	263	547	25	43
Receivables	0	0	490	453	0	0
Positive fair values from hedging derivatives	0	0	2,840	3,399	0	0
Interest rate derivatives	0	0	2,747	3,296	0	0
Cross-currency interest rate swaps	0	0	93	103	0	0
Financial investments (AfS)	12,401	15,490	10,015	4,992	563	969
Equity instruments	579	458	0	12	542	938
Securities	11,822	15,032	10,015	4,980	21	31
Investment property	0	0	0	0	705	481
Assets carried at amortized cost						
Loans and advances to banks after allowances for losses on loans and advances	0	2	15,747	24,240	24,279	24,486
Public-sector loans	0	0	9,306	13,735	20,122	19,626
Securities repurchase transactions	0	0	4,477	7,496	0	0
Other receivables	0	2	1,964	3,009	4,157	4,860
Loans and advances to customers after allowances for losses on loans and advances	0	0	26,800	22,828	91,577	87,576
Public-sector loans	0	0	7,983	7,148	15,211	15,031
Mortgage loans	0	0	438	1,361	32,665	31,236
Securities repurchase transactions	0	0	11,526	6,176	0	0
Other receivables	0	0	6,853	8,143	43,701	41,309
of which finance leases	0	0	0	0	5,227	5,469
Financial investments (LaR)	163	350	5,844	16,793	83	2,030
Equity instruments	0	0	0	2	5	4
Securitizations	0	0	38	2,907	28	1,972
Government bonds	0	0	5,512	12,710	50	50
Other securities	163	350	294	1,174	0	4
Non-current assets held for sale and disposal groups	0	36	0	26	16	660

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. 2014	31 Dec. 2013	31 Dec. 2014	31 Dec. 2013	31 Dec. 2014	31 Dec. 2013
Liabilities measured at fair value						
Trading liabilities	829	999	64,922	46,425	455	546
Derivatives	516	382	28,906	18,558	455	546
Currency-related derivatives	0	0	4,568	2,483	16	19
Interest rate-related derivatives	0	0	23,669	15,476	432	483
Credit derivatives	0	0	491	369	4	22
Share/index derivatives	457	350	170	221	3	22
Commodity-related and other derivatives	59	32	8	9	0	0
Delivery obligations from short sales of securities	313	602	11	1	0	0
Deposits	0	0	26,608	25,016	0	0
Securitized liabilities	0	15	9,397	2,849	0	0
Other financial liabilities	0	0	0	1	0	0
Financial liabilities designated at fair value	0	0	4,006	4,754	957	980
Deposits	0	0	1,420	1,548	53	158
Securitized liabilities	0	0	2,140	2,591	797	822
Other financial liabilities	0	0	446	615	107	0
Negative fair values from hedging derivatives	0	0	4,077	3,947	0	0
Interest rate derivatives	0	0	4,005	3,835	0	0
Cross-currency interest rate swaps	0	0	72	112	0	0
Liabilities carried at amortized cost						
Deposits from banks	5	0	53,745	58,545	811	1,636
Securities repurchase transactions	0	0	12,030	14,256	0	0
Borrower's note loans	0	0	8,473	10,367	18	35
Other liabilities	5	0	33,242	33,922	793	1,601
of which finance leases	0	0	0	0	295	289
Deposits from customers	0	0	71,084	82,808	702	934
Current account liabilities	0	0	32,037	30,656	0	0
Borrower's note loans	0	0	7,295	9,194	25	25
Registered covered bonds	0	0	7,728	8,580	0	0
Securities repurchase transactions	0	0	7,343	8,385	0	0
Other liabilities	0	0	16,681	25,993	677	909
Securitized liabilities	0	0	43,075	49,185	2,277	2,394
Other liabilities – of which finance leases	0	0	0	0	5	8
Subordinated capital	0	0	6,403	6,893	50	100
Subordinated liabilities	0	0	4,673	3,961	50	100
Capital generated from profit-participation rights	0	0	319	440	0	0
Silent partners' contributions	0	0	1,411	2,492	0	0
Liabilities from disposal groups	0	0	0	8	0	903

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 transfers between Levels I–III are carried out using quality criteria for the market data used in the valuation that are defined by Risk Controlling. Prompt availability, volume, executability and bid-offer spreads of the market data used play a particular role.

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

The following transfers 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. 2014	Transfers from Level I to Level II 31 Dec. 2013	Transfers from Level II to Level I 31 Dec. 2014	Transfers from Level II to Level I 31 Dec. 2013
Assets carried at fair value				
Trading assets	1,296	107	153	82
Securities	1,296	107	153	82
Financial assets designated at fair value	0	0	0	13
Securities	0	0	0	13
Financial investments (AfS)	5,769	1,139	386	1,377
Securities	5,769	1,139	386	1,377

In the year under review, the allocation rules were adjusted in part for the definition of the fair value hierarchy of debentures; this was to reflect clarifications by the IFRIC with regard to the interpretation of IFRS 13 and current market conventions. This led to a migration of the fair value volume from Level I to Level II, as well as marginal migration from Level II to Level I.

In addition, in the financial year LBBW reclassified securities for which no traded prices from active markets were available from Level I to Level II. Conversely, securities were reclassified if listed prices from active markets became available for them again. LBBW meets the requirements of the statement on accounting HFA47 made by the Institute of German Certified Public Accountants (Institut der Wirtschaftsprüfer in Deutschland – IDW) regarding the assessment as to whether an active market exists.

LBBW made no transfers between Level I and Level III on the liabilities side.

Development of level III.

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

Assets.

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

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

	Financial assets designated at fair value		Financial investments (AfS)		Investment property	Specific non-current assets held for sale and disposal group	Total
	Equity instruments	Securities	Equity instruments	Securities			
	41	**43**	**938**	**31**	**481**	**0**	**2,124**
	2	12	– 86	– 4	16	0	3
	0	1	0	0	0	0	64
	2	11	0	0	9	0	22
	0	0	– 86	– 4	– 15	0	– 105
	0	0	0	0	22	0	22
	0	0	3	0	0	0	3
	0	0	116	0	4	0	125
	– 2	– 33	– 60	– 24	– 5	0	– 125
	– 3	0	0	– 1	0	0	– 52
	0	0	– 279	0	149	0	– 130
	0	0	5	0	0	0	5
	0	0	0	0	76	0	76
	0	3	11	19	0	0	33
	– 13	0	– 106	0	0	0	– 129
	0	0	0	0	– 16	16	0
	25	**25**	**542**	**21**	**705**	**16**	**1,933**
	1	12	– 19	0	6	0	63
	0	1	0	0	0	0	64
	1	11	0	0	0	0	12
	0	0	– 19	0	– 16	0	– 35
	0	0	0	0	22	0	22

CONSOLIDATED FINANCIAL STATEMENTS

31 Dec. 2013	Trading assets				
	Derivatives				Receivables
EUR million	Currency related derivatives	Interest rate derivatives	Credit derivatives	Share/index-related derivatives	
Carrying amount as at 31 December 2012	**0**	**– 1**	**3**	**0**	**0**
Restatement of prior year amounts[2)]	**201**	**600**	**0**	**3**	**0**
Carrying amount as at 1 January 2013	**201**	**599**	**3**	**3**	**0**
Gains and losses recognized in net consolidated profit/loss	– 94	– 152	0	19	0
of which net interest income	0	0	– 2	0	0
of which net trading income	– 94	– 152	2	19	0
of which net gains/losses from financial instruments designated at fair value	0	0	0	0	0
of which net gains/losses from financial investments	0	0	0	0	0
of which other earnings items	0	0	0	0	0
Income and expenses recognized in Other income[1)]	0	0	0	0	0
Additions through acquisitions	0	0	0	0	12
Disposals through sales	0	0	0	0	0
Repayments/offsetting	0	– 1	0	0	0
Changes in the scope of consolidation	0	0	0	0	0
Changes from foreign currency translation	0	0	0	0	0
Transfers	0	0	0	0	0
Transfers to Level III	0	0	0	0	0
Transfers from Level III	0	0	0	0	0
Transfers in accordance with IFRS 5	0	0	0	0	0
Carrying amount as at 31 December 2013	**107**	**446**	**3**	**22**	**12**
of which unrealized gains and losses recognized in net consolidated profit/loss for financial instruments held as at the reporting date	– 94	– 152	0	19	0
of which net interest income	0	0	– 2	0	0
of which net trading income	– 94	– 152	2	19	0
of which net gains/losses from financial instruments designated at fair value	0	0	0	0	0
of which net gains/losses from financial investments	0	0	0	0	0
of which other earnings items	0	0	0	0	0

1) The amounts are recognized in the Revaluation reserve item.
2) The prior-year values have been restated, since as of the year under review, underlying and hedging transactions of the fair value options and back-to-back transactions are subject to a gross observation for the level classifications. Because of the risk compensation, these transactions were allocated to Level II in the previous year.

Financial assets designated at fair value		Financial investments (AfS)		Investment property	Specific non-current assets held for sale and disposal group	Total
Equity instruments	Securities	Equity instruments	Securities			
59	**161**	**1,066**	**68**	**512**	**0**	**1,868**
0	**0**	**0**	**0**	**– 25**	**0**	**779**
59	**161**	**1,066**	**68**	**487**	**0**	**2,647**
– 1	25	– 14	3	1	0	– 213
– 2	1	0	0	0	0	– 3
0	– 1	0	0	0	0	– 226
1	25	0	0	0	0	26
0	0	– 14	3	0	0	– 11
0	0	0	0	1	0	1
0	0	– 6	0	0	0	– 6
0	0	8	2	3	0	25
– 14	– 7	– 36	– 21	– 9	0	– 87
– 6	– 87	– 4	– 11	0	0	– 109
0	0	– 45	0	14	0	– 31
0	0	– 1	0	0	0	– 1
3	– 3	0	0	– 14	0	– 14
0	0	9	0	0	0	9
0	– 46	– 1	– 10	– 1	– 38	– 96
0	0	– 38	0	0	38	0
41	**43**	**938**	**31**	**481**	**0**	**2,124**
– 1	32	– 14	3	1	0	– 206
– 2	1	0	0	0	0	– 3
0	– 1	0	0	0	0	– 226
1	32	0	0	0	0	33
0	0	– 14	3	0	0	– 11
0	0	0	0	1	0	1

Equity and liabilities.

31 Dec. 2014	Trading liabilities				Financial liabilities designated at fair value			Total
	Derivatives				Deposits	Securitized liabilities	Other financial liabilities	
EUR million	Currency related derivatives	Interest rate derivatives	Credit derivatives	Share/index-based derivatives				
Carrying amount as at 31 December 2013	**19**	**483**	**22**	**22**	**158**	**822**	**0**	**1,526**
Gains and losses recognized in net consolidated profit/loss	– 3	54	– 10	0	3	20	4	68
of which net interest income	0	2	0	0	0	0	0	2
of which net trading income	– 3	52	– 10	0	0	0	0	39
of which net gains/losses from financial instruments designated at fair value	0	0	0	0	3	20	4	27
Disposals through sales	0	0	1	0	0	0	0	1
Repayments/offsetting	0	– 9	– 6	– 19	– 6	– 45	0	– 85
Transfers	0	0	0	0	– 102	0	103	1
Transfers from Level III	0	– 96	– 3	0	0	0	0	– 99
Carrying amount as at 31 December 2014	**16**	**432**	**4**	**3**	**53**	**797**	**107**	**1,412**
of which unrealized gains and losses recognized in net consolidated profit/loss for financial instruments held as at the reporting date	– 3	54	– 10	0	3	20	4	68
of which net interest income	0	2	0	0	0	0	0	2
of which net trading income	– 3	52	– 10	0	0	0	0	39
of which net gains/losses from financial instruments designated at fair value	0	0	0	0	3	20	4	27

31 Dec. 2013	Trading liabilities				Financial liabilities designated at fair value			Total
	Derivatives				Deposits	Securitized liabilities	Other financial liabilities	
EUR million	Currency related derivatives	Interest rate derivatives	Credit derivatives	Share/index-based derivatives				
Carrying amount as at 31 December 2012	0	8	48	0	45	67	0	168
Restatement of prior year amounts[1]	6	569	0	3	111	888	0	1,577
Carrying amount as at 1 January 2013	**6**	**577**	**48**	**3**	**156**	**955**	**0**	**1,745**
Gains and losses recognized in net consolidated profit/loss	13	– 94	– 18	19	2	– 133	0	– 211
of which net interest income	0	7	0	0	0	0	0	7
of which net trading income	13	– 101	– 18	19	0	0	0	– 87
of which net gains/losses from financial instruments designated at fair value	0	0	0	0	2	– 133	0	– 131
Repayments/offsetting	0	0	– 7	0	0	0	0	– 7
Transfers from Level III	0	0	– 1	0	0	0	0	– 1
Carrying amount as at 31 December 2013	**19**	**483**	**22**	**22**	**158**	**822**	**0**	**1,526**
of which unrealized gains and losses recognized in net consolidated profit/loss for financial instruments held as at the reporting date	13	– 94	– 18	19	2	– 133	0	– 211
of which net interest income	0	7	0	0	0	0	0	7
of which net trading income	13	– 101	– 18	19	0	0	0	– 87
of which net gains/losses from financial instruments designated at fair value	0	0	0	0	2	– 133	0	– 131

1) The prior-year values have been restated, since as of the year under review, underlying and hedging transactions of the fair value options and back-to-back transactions are subject to a gross observation for the level classifications. Because of the risk compensation, these transactions were allocated to Level II in the previous year.

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.

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 Net gains/losses from financial instruments measured at fair value and revaluation reserve		Negative changes in fair value Net gains/losses from financial instruments measured at fair value and revaluation reserve	
EUR million	31 Dec. 2014	31 Dec. 2013	31 Dec. 2014	31 Dec. 2013
Assets carried at fair value				
Trading assets	14.9	10.8	– 4.4	– 8.0
Derivatives	14.8	10.6	– 4.3	– 7.8
Interest rate-related derivatives	13.8	9.1	– 3.3	– 6.3
Credit derivatives	0.0	0.1	– 0.1	– 0.2
Share/index derivatives	0.1	0.2	– 0.2	– 0.4
Index derivatives	0.9	1.2	– 0.7	– 0.9
Receivables	0.1	0.2	– 0.1	– 0.2
Financial assets designated at fair value	0.3	0.6	– 0.3	– 0.9
Equity instruments	0.1	0.4	– 0.1	– 0.3
Securities	0.2	0.2	– 0.2	– 0.6
Financial investments (AfS)	13.1	30.9	– 12.1	– 29.9
Equity instruments	13.1	30.6	– 12.1	– 28.1
Securities	0.0	0.3	0.0	– 1.8
Total	**28.3**	**42.3**	**– 16.8**	**– 38.8**

Equity and liabilities.

	Positive changes in fair value Net gains/losses from financial instruments measured at fair value and revaluation reserve		Negative changes in fair value Net gains/losses from financial instruments measured at fair value and revaluation reserve	
EUR million	31 Dec. 2014	31 Dec. 2013	31 Dec. 2014	31 Dec. 2013
Liabilities measured at fair value				
Trading liabilities	5.6	8.7	– 13.5	– 10.4
Derivatives	5.6	8.7	– 13.5	– 10.4
Interest rate-related derivatives	4.9	7.6	– 12.8	– 9.8
Credit derivatives	0.2	0.7	– 0.2	– 0.4
Share/index derivatives	0.2	0.4	– 0.1	– 0.2
Index derivatives	0.3	0.0	– 0.4	0.0
Financial liabilities designated at fair value	0.9	1.1	– 0.9	– 1.3
Securitized liabilities	0.8	1.1	– 0.9	– 1.3
Other financial liabilities	0.1	0.0	0.0	0.0
Total	**6.5**	**9.8**	**– 14.4**	**– 11.7**

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 are based. As the financial instruments in question differ significantly, the range of certain parameters may be considerable.

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

Assets.

31 Dec. 2014 EUR million	Valuation techniques	Significant non-observable parameters	Spread	Parameter shift
Assets carried at fair value				
Trading assets				
Derivatives				
Interest rate derivatives	Option price model	Interest rate correlation	– 12 % – 99 %	rel. – 20 % / +10 %
Credit derivatives	Correlation price model	Credit correlation	72 % – 90 %	abs. – 30 % / +10 %
Share/index derivatives	Option price model	Equity-foreign exchange correlation	5 %	abs. – 25 % / +15 %
Index derivatives	Option price model	Currency correlation	32 %	abs. – 30 % / +30 %
Receivables	Net present value method	Credit spread (bp)	95 – 170	rel. – 30 % / +30 %
Financial assets designated at fair value				
Equity instruments	Net present value method	Credit spread (bp)	1,000	rel. – 30 % / +30 %
Securities	Price method ---- Net present value method	Price ---- Credit spread (bp)	5 % ---- 1,000	abs. – 5 % / +5 % ---- rel. – 30 % / +30 %
Financial investments (AfS)				
Equity instruments	Net asset value method --- Discounted cash flow method --- Income value method	n/a --- Capitalization rate --- Beta factor	n/a --- 1.53 % – 4.62 % --- 0.29 – 1.23	n/a --- individually per instrument --- rel. +5 % / – 5 %
Investment property	Discounted cash flow method	Rent dynamization ---- Discount rate ---- Vacancy rate / default on receivables after the contractual period (as a % of the target rent) ---- Basic maintenance costs ---- Administrative costs (as a % of the target rent)	1.5 % – 1.6 % ---- 6.0 % – 8.8 % ---- fully rented or 4.0 % – 5.0 % ---- EUR 0 – 16 / m^2 ---- 1.0 % – 5.0 %	n/a

31 Dec. 2013 EUR million	Valuation techniques	Significant non-observable parameters	Spread	Parameter shift
Assets carried at fair value				
Trading assets				
Derivatives				
Interest rate derivatives	Option price model	Interest rate correlation	20% – 99%	rel. – 20% / +10%
Credit derivatives	Correlation price model	Credit correlation	70% – 90%	abs. – 30% / +10%
Share/index-related derivatives	Option price model	Volatility correlation	0% – 5%	abs. – 25% / +15%
Index derivatives	Option price model	Currency correlation	43%	abs. – 30% / +30%
Receivables	Net present value method	Credit spread (bp)	100 – 265	rel. – 30% / +30%
Financial assets designated at fair value				
Equity instruments	Net present value method	Credit spread (bp)	2,200	rel. – 30% / +30%
Securities	Price method	Share price	5% – 88%	individually per security
Financial investments (AfS)				
Equity instruments	Net asset value method --- Discounted cash flow method --- Income value method	n/a --- Capitalization rate --- Beta factor	n/a --- 1.43% – 5.06% --- 0.49 – 1.23	n/a --- individually per instrument --- rel. +5% / – 5%
Securities	Price method	Share price	0% – 72%	individually per security
Investment property	Discounted cash flow method	Rent dynamization ---- Discounting interest rate ---- Basic maintenance costs ---- Administrative costs (as a % of the target rent)	1.5% – 1.6% ---- 6.1% – 8.75% ---- EUR 0 – 15 / m^2 ---- 1% – 5%	n/a

Equity and liabilities.

31 Dec. 2014 EUR million	Valuation techniques	Significant non-observable parameters	Spread	Parameter shift
Liabilities measured at fair value				
Trading liabilities				
Derivatives				
Interest rate-related derivatives	Option price model	Interest rate correlation	– 12% – 99%	rel. – 20% / +10%
Credit derivatives	Correlation price model	Credit correlation	72% – 90%	abs. – 30% / +10%
Share/index-related derivatives	Option price model	Equity-foreign exchange correlation	5%	abs. – 25% / +15%
Index derivatives	Option price model	Currency correlation	32%	abs. – 30% / +30%
Financial liabilities designated at fair value				
Deposits	Option price model	Interest rate correlation	23% – 99%	rel. – 20% / +10%
Securitized liabilities	Option price model --- Option price model	Interest rate correlation --- Currency correlation	23% – 99% --- 32%	rel. – 20% / +10% --- abs. – 30% / +30%
Other financial liabilities	Option price model	Interest rate correlation	23% – 99%	rel. – 20% / +10%

31 Dec. 2013 EUR million	Valuation techniques	Significant non-observable parameters	Spread	Parameter shift
Liabilities measured at fair value				
Trading liabilities				
Derivatives				
Interest rate-related derivatives	Option price model	Interest rate correlation	20%– 99%	rel. – 20% / +10%
Credit derivatives	Correlation price model	Credit correlation	70%– 90%	abs. – 30% / +10%
Share/index-related derivatives	Option price model	Equity-foreign exchange correlation	0%– 5%	abs. – 25% / +15%
Index derivatives	Option price model	Currency correlation	43%	abs. – 30% / +30%
Financial liabilities designated at fair value				
Deposits	Option price model	Interest rate correlation	20%– 99%	rel. – 20% / +10%
Securitized liabilities	Option price model --- Option price model	Interest rate correlation --- Currency correlation	20%– 99% --- 43%	rel. – 20% / +10% --- abs. – 30% / +30%

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

Day one profit or loss.

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

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

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

The following table shows the performance of the day one profits for the 2014 financial year compared with year-end 2013, which were accrued due to the use of major unobservable parameters for financial instruments recognized at fair value.

EUR million	2014	2013
Balance as at 1 January	**2**	**5**
Gains/losses recognized in the income statement during the reporting period (reversals)	– 1	– 3
Balance as at 31 December	**1**	**2**

58. Financial instruments designated at fair value.

The maximum default risk for loans and receivables designated at fair value amounts to EUR 469 million as at the balance sheet date (previous year: EUR 453 million). The changes to the fair value of these financial assets induced by changes to credit ratings amounted to EUR 7 million in the year under review (previous year: EUR – 1 million), or to EUR – 8 million since they were so designated (previous year: EUR – 7 million).

The changes to the fair value of financial liabilities designated at fair value, induced by changes to credit ratings, amounted to EUR – 23 million in the year under review (previous year: EUR – 89 million), or to EUR 60 million since they were so designated (previous year: EUR 82 million). EUR – 15 million of this amount was attributed to changes in the credit ratings of the LBBW Group (previous year: EUR – 82 million).

Two values – one based on the original spread and one based on the current spread – are calculated to determine the changes to fair value induced by changes to credit ratings. The changes to fair value induced by changes to credit ratings are implicitly derived from these two measurements. The fair value option includes own issues which contains external credit risk only within the scope of economic hedges with credit derivatives. The rating-induced fair value adjustments due to external credit risks in own structured issues are based on the changes in value of the underlying hedging credit derivatives.

The contractually agreed repayment amount of the issued liabilities at maturity exceeds the current fair value at the amount of EUR 977 million (previous year: EUR 740 million).

59. 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. 2014	1 Jan.– 31 Dec. 2013
Financial assets carried at amortized cost	503	– 639
Financial liabilities/assets held for trading	45	329
Financial liabilities/assets designated at fair value	– 155	37
Available-for-sale financial assets	575	– 162
Financial liabilities measured at amortized cost	– 454	318

60. Impairment losses on financial assets.

EUR million	1 Jan.– 31 Dec. 2014	1 Jan.– 31 Dec. 2013
Assets carried at fair value		
Financial investments (AfS)	– 13	– 21
Equity instruments	– 13	– 18
Securities	0	– 3
Assets carried at amortized cost		
Loans and advances to banks	– 6	– 5
Public-sector loans	– 1	0
Other receivables	– 5	– 5
Loans and advances to customers	– 580	– 692
Public-sector loans	– 5	– 12
Mortgage loans	– 151	– 97
Other receivables	– 424	– 583
of which finance leases	– 37	– 45
Financial investments (LaR)	0	– 30
Equity instruments	0	– 1
Securitizations	0	– 29
Total	**– 599**	**– 748**

61. Reconciliation of carrying amounts to categories.

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

31 Dec. 2014 EUR million	Loans and receivables	Available for sale	Held for trading	Fair value option	Other liabilities	Total
Loans and advances to banks after allowances for losses on loans and advances	38,415					38,415
Loans and advances to customers after allowances for losses on loans and advances	111,610					111,610
Financial assets measured at fair value through profit or loss[1]			76,043	1,001		77,044
Financial investments	6,071	22,979				29,050
Deposits from banks					52,314	52,314
Deposits from customers					69,874	69,874
Securitized liabilities					44,231	44,231
Financial liabilities measured at fair value through profit or loss[2]			66,206	4,963		71,169
Subordinated capital					6,229	6,229

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

31 Dec. 2013 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	47,616					47,616
Loans and advances to customers after allowances for losses on loans and advances	109,261					109,261
Financial assets measured at fair value through profit or loss[1]			65,390	1,316		66,706
Financial investments	19,209	21,451				40,660
Non-current assets held for sale and disposal groups[1]	652	56	4	0		712
Deposits from banks					58,045	58,045
Deposits from customers					82,053	82,053
Securitized liabilities					50,693	50,693
Financial liabilities measured at fair value through profit or loss[2]			47,970	5,734		53,704
Liabilities from disposal groups[2]			2	0	903	905
Subordinated capital					7,103	7,103

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

62. Breakdown of financial instruments by remaining maturity.

The remaining maturity is defined as the period between the balance sheet date and the contractual maturity date of a receivable or liability, or installments thereof. Equity instruments have been allocated to the »up to 3 months and without a fixed term« maturity bracket. Trading assets or liabilities are generally recognized in accordance with their contractual maturity. The remaining maturity of the derivative financial instruments is also reported under Note 63.

31 Dec. 2014 EUR million	Up to 3 months and without a fixed term	Between 3 months and 1 year	Between 1 year and 5 years	More than 5 years	Total
Loans and advances to banks	7,779	9,763	12,339	8,543	38,424
Loans and advances to customers	20,511	15,595	35,679	41,410	113,195
Financial assets measured at fair value through profit or loss	23,941	13,744	18,659	23,540	79,884
Financial investments	2,228	10,693	11,797	4,332	29,050
Deposits from banks	13,461	9,169	17,674	12,010	52,314
Deposits from customers	54,314	5,877	4,599	5,084	69,874
Securitized liabilities	4,822	21,293	13,655	4,461	44,231
Financial liabilities measured at fair value through profit or loss	35,524	6,828	11,135	21,759	75,246
Subordinated capital	225	1,342	829	3,833	6,229

31 Dec. 2013 EUR million	Up to 3 months and without a fixed term	Between 3 months and 1 year	Between 1 year and 5 years	More than 5 years	Total
Loans and advances to banks	11,413	8,941	18,443	8,828	47,625
Loans and advances to customers	19,492	14,959	34,900	42,102	111,453
Financial assets measured at fair value through profit or loss	24,527	8,964	20,443	16,171	70,105
Financial investments	2,746	15,070	16,624	6,220	40,660
Non-current assets held for sale and disposal groups	251	64	104	294	713
Deposits from banks	15,495	8,353	21,970	12,227	58,045
Deposits from customers	50,787	16,014	9,065	6,187	82,053
Securitized liabilities	6,441	4,859	34,957	4,436	50,693
Financial liabilities measured at fair value through profit or loss	26,154	5,858	11,200	14,439	57,651
Liabilities from disposal groups	815	36	18	42	911
Subordinated capital	875	165	2,587	3,476	7,103

63. 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. 2014 EUR million	Up to 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 year and 5 years	More than 5 years
Financial liabilities	– 48,414	– 15,651	– 47,534	– 34,274	– 20,737
Liabilities from derivatives	– 53	– 74	– 302	– 856	– 1,254
Total	**– 48,467**	**– 15,725**	**– 47,836**	**– 35,130**	**– 21,991**
Irrevocable loan commitments and guarantees[1]	– 24,470	0	0	0	0
Savings and demand deposits, securitization from interbank accounts	– 38,629	0	0	0	0

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.

CONSOLIDATED FINANCIAL STATEMENTS

31 Dec. 2013 EUR million	Up to 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 year and 5 years	More than 5 years
Financial liabilities	– 48,588	– 12,206	– 23,207	– 76,003	– 25,079
Liabilities from derivatives	– 47	– 71	– 316	– 639	– 941
Total	**– 48,635**	**– 12,277**	**– 23,523**	**– 76,642**	**– 26,020**
Irrevocable loan commitments and guarantees[1)]	– 21,218	0	0	0	0
Savings and demand deposits, securitization from interbank accounts	– 37,739	0	0	0	0

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.

64. Reclassifications.

Modifications to IAS 39 and to IFRS 7 (Reclassification of Financial Assets) were passed by the IASB and adopted by the EU in the course of the financial market crisis in 2008, where results were burdened significantly by fair value fluctuations (mainly in securitization products). 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. 2014 Carrying amount	31 Dec. 2014 Fair value	31 Dec. 2013 Carrying amount	31 Dec. 2013 Fair value	1 Jul. 2008 Nominal amount	1 Jul. 2008 Carrying amount
Held for trading reclassified as loans and receivables	**25**	**26**	**58**	**55**	**935**	**913**
of which securitization transactions	0	0	31	27	134	128
of which other securities	25	26	27	28	801	785
Available for sale reclassified as loans and receivables	**164**	**167**	**3,727**	**3,320**	**29,023**	**27,373**
of which securitization transactions	1	1	3,309	2,893	14,643	13,302
of which other securities	163	166	418	427	14,380	14,071
Total	**189**	**193**	**3,785**	**3,375**	**29,958**	**28,286**

The nominal volume of the securities reclassified out of the held-for-trading category was EUR 26 million as at 31 December 2014 (previous year: EUR 65 million), with securitization transactions accounting for EUR 0 million (previous year: EUR 32 million) and other securities for EUR 26 million (previous year: EUR 33 million).

The nominal volume of securities reclassified as available for sale was EUR 161 million as at 31 December 2014 (previous year: EUR 4,050 million), with securitization transactions accounting for EUR 1 million (previous year: EUR 3,637 million) and other securities for EUR 160 million (previous year: EUR 413 million) thereof.

The reclassified portfolios contributed EUR – 292 million (previous year: EUR – 45 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 31 million (previous year: EUR 64 million) as at 31 December 2014. The fair value changes of reclassified available-for-sale securities would have eased the »Other income« by EUR 423 million (previous year: EUR 355 million).

Over the year as a whole, original interest payments in the amount of EUR 22 million were collected from reclassified portfolios (previous year: EUR 54 million).

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

65. Details about the volume of derivatives.

31 Dec. 2014	Nominal values – remaining maturities					Fair value	
EUR million	Up to 3 months	Between 3 months and 1 year	More than 1 year to 5 years	More than 5 years	Total	Positive	Negative
Currency forwards	89,177	39,644	13,443	1,027	143,291	2,856	3,074
Currency options	1,915	3,027	919	4	5,865	62	49
Purchases	1,012	1,506	422	1	2,941	62	0
Sales	903	1,521	497	3	2,924	0	49
Cross-currency interest rate swaps	1,515	7,432	18,590	9,388	36,925	1,243	1,533
Currency-related derivatives	**92,607**	**50,103**	**32,952**	**10,419**	**186,081**	**4,161**	**4,656**
Forward rate agreements	3,124	7,012	354	0	10,490	0	1
Interest rate swaps	98,521	121,310	273,603	259,418	752,852	25,433	22,496
Interest rate options	2,078	7,698	27,371	34,453	71,600	3,073	5,092
Purchases	1,188	3,375	11,823	13,728	30,114	2,967	142
Sales	890	4,323	15,548	20725	41,486	106	4,950
Caps/floors/collars	1,362	3,637	12,858	16,579	34,436	477	280
Exchange-traded interest rate products	20,677	12,763	5,248	0	38,688	0	0
Other interest rate contracts	1,940	625	119	33	2,717	36	237
Interest rate-related derivatives	**127,702**	**153,045**	**319,553**	**310,483**	**910,783**	**29,019**	**28,106**
Credit derivatives (protection seller)	1,192	2,764	8,505	998	13,459	187	7
Credit derivatives (protection buyer)	1,162	2,991	8,255	1,434	13,842	5	488
Credit derivatives	**2,354**	**5,755**	**16,760**	**2,432**	**27,301**	**192**	**495**
Exchange-traded products	800	5,653	4,936	176	11,565	258	457
Equity forward contracts	1	0	0	0	1	0	0
Stock options	67	231	280	646	1,224	10	67
Purchases	19	67	171	182	439	10	0
Sales	48	164	109	464	785	0	67
Other equity derivatives	40	332	160	579	1,111	33	106
Share/index derivatives	**908**	**6,216**	**5,376**	**1,401**	**13,901**	**301**	**630**
Commodities	996	1,342	37	0	2,375	86	67
Commodity-related and other derivatives	**996**	**1,342**	**37**	**0**	**2,375**	**86**	**67**
Total	**224,567**	**216,461**	**374,678**	**324,735**	**1,140,441**	**33,759**	**33,954**

31 Dec. 2013	Nominal values – remaining maturities					Fair value	
EUR million	Up to 3 months	Between 3 months and 1 year	More than 1 year to 5 years	More than 5 years	Total	Positive	Negative
Currency forwards	51,414	22,583	10,090	769	84,856	1,532	1,419
Currency options	976	1,710	536	4	3,226	74	42
Purchases	538	918	263	1	1,720	75	0
Sales	438	792	273	3	1,506	– 1	42
Cross-currency interest rate swaps	2,146	7,611	23,088	8,725	41,570	1,191	1,153
Currency-related derivatives	**54,536**	**31,904**	**33,714**	**9,498**	**129,652**	**2,797**	**2,614**
Forward rate agreements	1,684	12,675	602	0	14,961	1	3
Interest rate swaps	108,527	157,614	336,462	286,780	889,383	19,738	17,111
Interest rate options	2,080	6,664	27,066	33,303	69,113	1,848	2,319
Purchases	590	3,110	11,698	13,549	28,947	1,560	132
Sales	1,490	3,554	15,368	19,754	40,166	288	2,187
Caps/floors/collars	1,405	4,482	13,244	17,360	36,491	507	324
Exchange-traded interest rate products	30,154	24,329	14,515	0	68,998	0	0
Other interest rate contracts	2,385	144	697	0	3,226	33	45
Interest rate-related derivatives	**146,235**	**205,908**	**392,586**	**337,443**	**1,082,172**	**22,127**	**19,802**
Credit derivatives (protection seller)	1,966	3,860	15,285	871	21,982	237	104
Credit derivatives (protection buyer)	1,704	3,518	13,601	892	19,715	21	287
Credit derivatives	**3,670**	**7,378**	**28,886**	**1,763**	**41,697**	**258**	**391**
Exchange-traded products	1,101	4,442	5,659	62	11,264	283	350
Equity forward contracts	128	0	0	0	128	0	1
Stock options	360	446	569	372	1,747	54	161
Purchases	186	221	250	13	670	54	0
Sales	174	225	319	359	1,077	0	161
Other equity derivatives	108	64	328	608	1,108	81	81
Share/index derivatives	**1,697**	**4,952**	**6,556**	**1,042**	**14,247**	**418**	**593**
Commodities	1,111	1,783	45	0	2,939	78	41
Commodity-related and other derivatives	**1,111**	**1,783**	**45**	**0**	**2,939**	**78**	**41**
Total	**207,249**	**251,925**	**461,787**	**349,746**	**1,270,707**	**25,678**	**23,441**

In the previous year, derivative financial instruments, which were held for sale in accordance with IFRS 5, had a positive fair value of EUR 5 million and a negative fair value of EUR 8 million.

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. 2014	31 Dec. 2013	31 Dec. 2014 Positive	31 Dec. 2013 Positive	31 Dec. 2014 Negative	31 Dec. 2013 Negative
Banks in OECD countries	557,007	622,538	24,497	19,167	28,447	19,116
Banks in non-OECD countries	6,780	3,762	26	65	440	143
Public-sector agencies in OECD countries	43,419	46,784	4,905	2,918	1,427	1,053
Other counterparties	533,235	597,623	4,331	3,528	3,640	3,129
Total	**1,140,441**	**1,270,707**	**33,759**	**25,678**	**33,954**	**23,441**

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:

	Fair value			
EUR million	31 Dec. 2014 Positive	31 Dec. 2013 Positive	31 Dec. 2014 Negative	31 Dec. 2013 Negative
Derivative financial instruments and economic hedging derivatives used for trading	30,919	22,279	29,876	19,488
Derivative financial instruments used for fair value hedging	2,840	3,399	4,078	3,950
Derivative financial instruments used for cash flow hedging	0	0	0	3
Total	**33,759**	**25,678**	**33,954**	**23,441**

66. 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. 2014	Transferred assets continue to be recognized in full	
EUR million	Carrying amount of transferred assets	Carrying amount of the associated liabilities
Assets carried at fair value		
Trading assets	5,080	3,141
Securities	5,080	3,141
Financial investments (AfS)	10,475	4,585
Securities	10,475	4,585
Assets carried at amortized cost		
Loans and advances to banks	17,162	17,171
Public-sector loans	17,139	17,148
Other receivables	23	23
Loans and advances to customers	5,904	5,907
Public-sector loans	345	345
Mortgage loans	1,952	1,953
Other receivables	3,607	3,609

31 Dec. 2013	Transferred assets continue to be recognized in full	
EUR million	Carrying amount of transferred assets	Carrying amount of the associated liabilities
Assets carried at fair value		
Trading assets	6,259	5,955
Securities	6,259	5,955
Financial investments (AfS)	11,438	3,824
Securities	11,438	3,824
Assets carried at amortized cost		
Loans and advances to banks	16,733	16,614
Public-sector loans	16,733	16,614
Loans and advances to customers	5,512	5,473
Public-sector loans	344	342
Mortgage loans	1,796	1,783
Other receivables	3,372	3,348
Financial investments (LaR)	20	0
Other securities	20	0

67. 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 51,852 million (previous year: EUR 50,329 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 29,790 million (previous year: EUR 19,490 million). Of the collateral received, the LBBW Group is required to return collateral with a total fair value of EUR 29,790 million (previous year: EUR 18,586 million) to its owners. The fair value of collateral disposed of or forwarded with an obligation to return the securities to the owner amounts to EUR 6,688 million (previous year: EUR 2,941 million).

68. 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. 2014				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	100	– 99	1	0	0	0	1
Receivables from securities repurchase and lending agreements	20,149	– 3,048	17,101	– 3,833	– 13,222	– 1	45
Derivatives	45,483	– 14,359	31,124	– 21,654	– 120	– 3,201	6,149
Total	**65,732**	**– 17,506**	**48,226**	**– 25,487**	**– 13,342**	**– 3,202**	**6,195**

31 Dec. 2013				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	195	– 194	1	0	0	0	1
Receivables from securities repurchase and lending agreements	18,133	– 3,089	15,044	– 1,620	– 13,171	0	253
Derivatives	33,222	– 10,098	23,124	– 16,133	– 128	– 2,416	4,447
Total	**51,550**	**– 13,381**	**38,169**	**– 17,753**	**– 13,299**	**– 2,416**	**4,701**

As at 31 December 2014, the net amount of recognized current account claims is shown in the balance sheet item loans and advances to banks at EUR 0.4 million (previous year: EUR 0 million) and in loans and advances to customers at EUR 0.6 million(previous year: EUR 1 million).

The respective net amounts of the securities repurchase and lending agreements are recognized in the following balance sheet items: EUR 4,548 million in loans and advances to banks (previous year: EUR 7,494), EUR 11,548 million in loans and advances to customers (previous year: EUR 7,046 million), as well as EUR 1,005 million in financial assets measured at fair value through profit or loss (previous year: EUR 504 million).

As in the previous year, the net receivables from derivative transactions are also recognized in full in the financial assets measured at fair value through profit or loss balance sheet item.

Equity and liabilities.

31 Dec. 2014				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	369	– 99	270	0	0	0	270
Liabilities from securities repurchase and lending agreements	22,419	– 3,048	19,371	– 3,833	– 15,527	0	11
Derivatives	44,913	– 14,359	30,554	– 21,654	– 48	– 7,148	1,704
Total	**67,701**	**– 17,506**	**50,195**	**– 25,487**	**– 15,575**	**– 7,148**	**1,985**

31 Dec. 2013				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	468	– 194	274	0	0	0	274
Liabilities from securities repurchase and lending agreements	25,730	– 3,089	22,641	– 1,620	– 20,984	0	37
Derivatives	30,605	– 10,098	20,507	– 16,133	– 61	– 3,325	988
Total	**56,803**	**– 13,381**	**43,422**	**– 17,753**	**– 21,045**	**– 3,325**	**1,299**

As at 31 December 2014, the net amount of recognized current account claims is shown in deposits from banks at EUR 21 million(previous year: EUR 15 million) and in deposits from customers at EUR 249 million (previous year: EUR 259 million).

The respective net amounts of the securities repurchase and lending agreements are recognized in the following balance sheet items: EUR 12,034 million in deposits from banks (previous year: EUR 15,760 million) and EUR 7,337 million in deposits from customers (previous year: EUR 6,881 million).

As in the previous year, the net liabilities from derivative transactions are also recognized in full in the financial assets measured at fair value through profit or loss balance sheet item.

69. Information on issuing activities.

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

1) Primary sale also includes volume from previous years.

31 Dec. 2013 EUR million	Amount	Volume	Primary sale [1]	Repayments
Covered bonds	47	615	613	7,568
Money market transactions	152	6,087	6,087	7,524
Other bearer bonds	5,422	272,274	4,311	7,749
Other bonds	0	0	0	483
Total	**5,621**	**278,976**	**11,011**	**23,324**

1) Primary sale also includes volume from previous years.

In accordance with IAS 39, own debentures held by the Group amounting to a nominal EUR 6,981 million (previous year: EUR 11,366 million) were offset against the debentures issued.

Other notes.

70. 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. 2014	31 Dec. 2013
Assets with restrictions on disposal		
Loans and advances to banks	25,994	34,352
Loans and advances to customers	38,268	38,552
Financial assets measured at fair value through profit or loss	14,085	10,998
Financial investments (AfS)	14,203	15,923
Other	944	667
Total	**93,494**	**100,492**

The assets with significant restrictions comprise mainly the EUR 42 billion (previous year: EUR 52 billion) in cover assets in the covered bond business, financial assets of EUR 39 billion (previous year: EUR 40 billion) that have been transferred but not fully derecognized in securities repurchase or lending transactions and development loan transactions (see Note 66) and collateral pledged for liabilities from OTC derivative transactions in the amount of EUR 8 billion (previous year: EUR 4 billion).

Shares in consolidated structured entities.

A total of 14 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.

Loss assumption obligations vis-a-vis consolidated structured entities were utilized due to the downsizing of the guarantee portfolio and therefore reduced accordingly in the year under review.

As at 31 December 2014, liquidity lines in the amount of EUR 3,805 million (previous year: EUR 3,600 million) were provided to the consolidated structured entities.

Shares in joint agreements and associates.

Two associates are of material importance to the LBBW Group due to the carrying amount of the equity investment, and the total assets and proportionate earnings of the associates, and are measured using the equity method.

Summarized financial information for each associate that is material to the LBBW Group is shown in the following table:

EUR million	BWK GmbH Unternehmensbeteiligungs-gesellschaft, Stuttgart[1), 2)] 31 Dec. 2014	BWK GmbH Unternehmensbeteiligungs-gesellschaft, Stuttgart[1), 2)] 31 Dec. 2013	Vorarlberger Landes- und Hypothekenbank AG, Bregenz[1), 2)] 31 Dec. 2014	Vorarlberger Landes- und Hypothekenbank AG, Bregenz[1), 2)] 31 Dec. 2013
Revenues	235	84	351	342
Profit/loss from continuing operations	220	66	84	67
Net consolidated profit/loss in equity	– 147	– 4	2	– 5
Net consolidated total comprehensive income	73	62	86	62
Current assets	**365**	**138**	**3,369**	**3,782**
Non-current assets	233	397	10,737	10,492
Short-term liabilities	11	8	5,748	5,754
Long-term liabilities	28	28	7,470	7,715
Contingent liabilities	2	7	384	340
Net assets of the associate	559	499	888	805
Share of capital (in %)	**40**	**40**	**24**	**24**
Share of net assets	223	200	213	193
Other adjustments	– 58	– 63	– 82	– 55
Carrying amount of the equity investment	**165**	**137**	**131**	**138**

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 55% stake in the capital and voting rights, offers equity solutions to SMEs. The capital and voting shares are limited to 40% due to the UBG status.

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 6 million (previous year: EUR 6 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:

EUR million	Associates 31 Dec. 2014	Associates 31 Dec. 2013	Joint ventures 31 Dec. 2014	Joint ventures 31 Dec. 2013
Portion of the profit or loss from continuing operations	0	0	1	2
Share in net consolidated total comprehensive income	0	0	1	2
Total carrying amounts of the Group shares	0	0	6	23

Contingent liabilities of EUR 3 million (previous year: EUR 5 million) exist in connection with the shares in associates and joint ventures. Irrevocable loan commitments to joint ventures and other commitments that have not been recognized amount to EUR 22 million (previous year: EUR 40 million) and EUR 1 million (previous year: EUR 0), respectively.

The share of losses in associates and joint ventures that LBBW no longer reports when applying the equity method amounted to EUR 0 in 2014 (previous year: EUR – 6 million) and to EUR – 14 million on a cumulative basis (previous year: EUR – 15 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 exercise 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:

31 Dec. 2014 EUR million	Securitization vehicle	Funds	Financing companies	Other	Total
Scope of the structured entities	14,267	276,388	18,508	22	309,185

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:

31 Dec. 2014 EUR million	Securitization vehicle	Funds	Financing companies	Other	Total
Assets					
Receivables	8,186	4,887	2,740	0	15,813
Loans and advances to banks	247	0	0	0	247
Loans and advances to customers	7,939	4,887	2,740	0	15,566
Allowances for losses on loans and advances	0	0	10	0	10
Allowances for losses on loans and advances to customers	0	0	10	0	10
Financial assets measured at fair value through profit or loss	52	688	407	21	1,168
Trading assets	16	499	407	0	922
Fair value option	36	189	0	21	246
Financial investments	66	0	0	0	66
Total assets	**8,304**	**5,575**	**3,157**	**21**	**17,057**
Equity and liabilities					
Liabilities	1,250	1,139	268	0	2,657
Deposits from customers	1,250	1,139	268	0	2,657
Financial liabilities measured at fair value through profit or loss	1	1,657	0	0	1,658
Trading liabilities	1	1,608	0	0	1,609
Fair value option	0	49	0	0	49
Total equity and liabilities	**1,251**	**2,796**	**268**	**0**	**4,315**
Off-balance sheet obligations	0	33	21	0	54

Fee and commission income of EUR 57 million was generated from shares owing to the management of funds.

The maximum potential losses from shares in non-consolidated structured entities depend on the type of shares. The maximum risk of loss from receivables and assets held for trading corresponds to the carrying values (after allowances for losses on loans and advances if necessary). The nominal values of derivatives and off-balance sheet obligations, including loan commitments, guarantees and liquidity facilities represent the maximum possible loss. The nominal value for derivatives with a positive replacement value is EUR 8,352 million while that for derivatives with a negative replacement value is EUR 3,627 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 is off-balance sheet obligations with regard to one structured entity (see Note 73).

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 funded by LBBW Group and/or start-up capital provided by LBBW.

LBBW received gross income of EUR 20 million from fees and commission, trading activities and interest payment from business transactions with sponsored, non-consolidated structured entities in which LBBW Group holds no shares as at the reporting date. Assets totaling EUR 182 million were transferred from third parties to sponsored, non-consolidated structured entities within the scope of replenishment agreements in 2014.

71. 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. 2014	31 Dec. 2013
Gross investment value	**5,618**	**6,192**
Up to 1 year	748	1,190
Between 1 year and 5 years	2,573	2,919
More than 5 years	2,297	2,083
– Unrealized financial income	**– 627**	**– 924**
= Net investment value	**4,991**	**5,268**
– Present value of unguaranteed residual values	– 171	– 123
= Present value of receivables from minimum leasing payments	**4,820**	**5,145**
Up to 1 year	637	1,027
Between 1 year and 5 years	2,249	2,619
More than 5 years	1,934	1,499

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 – 116 million on the reporting date (previous year: EUR – 149 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. 2014	31 Dec. 2013
Buildings	2	2
Operating and office equipment	0	1
Land	1	1
Total leased assets under finance leases	**3**	**4**

The carrying amount of finance lease assets in property and equipment in the amount of EUR 3 million (previous year: EUR 4 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 a conversion point of 31 August 2020. The lessee has an option to buy at the end of the 10th or 15th year of the lease term when the lessee may purchase the leased office building at the present value of the rents and contributions to administrative expenses payable until the end of the lease term, plus the present value of the market value of the leased office building at the end of its lease term. At the end of the lease term, the lessee has an option to buy the leased building at the commercial value specified 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. 2014	31 Dec. 2013
Future minimum leasing payments	**6**	**9**
Up to 1 year	1	4
Between 1 year and 5 years	5	5
– Discount amount	**– 1**	**– 1**
= Present value of future minimum leasing payments	**5**	**8**
Up to 1 year	1	3
Between 1 year and 5 years	4	5

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. 2014	31 Dec. 2013
Buildings	49	87
Land	26	38
Total operating lease	**75**	**125**

The following payments are expected from the leases mentioned:

EUR million	31 Dec. 2014	31 Dec. 2013
Up to 1 year	23	25
Between 1 year and 5 years	63	78
More than 5 years	109	88
Future minimum leasing payments from non-terminable leasing contracts	**195**	**191**

Operating lease – LBBW as a lessee.

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

EUR million	31 Dec. 2014	31 Dec. 2013
Up to 1 year	75	41
Between 1 year and 5 years	179	88
More than 5 years	120	245
Future minimum leasing payments from non-terminable leasing contracts	**374**	**374**

In the 2014 financial year, minimum leasing payments of EUR – 31 million (previous year: EUR – 57 million) were recorded as expenses. These items comprise mainly expenses incurred for rent for business premises.

72. Related party disclosures.

Related party transactions are concluded at arm's length terms in the ordinary course of business. The following tables show the scope of such transactions:

31 Dec. 2014 EUR million	Shareholders	Members of the Board of Managing Directors and Supervisory Board	Non-consolidated subsidiaries	Associates	Joint ventures	Other related parties/ companies
Loans and advances to banks	188	0	0	129	0	0
Loans and advances to customers	4,121	2	227	179	89	55
Allowances for losses on loans and advances	0	0	– 45	0	– 4	0
Financial assets measured at fair value through profit or loss	3,054	0	5	127	5	0
Financial investments	31	0	216	52	23	5,501
Other assets	0	0	1	0	0	0
Total assets	**7,394**	**2**	**404**	**487**	**113**	**5,556**
Deposits from banks	6,908	0	5	3	0	0
Deposits from customers	146	3	197	450	7	6,081
Financial liabilities measured at fair value through profit or loss	1,511	0	2	95	1	0
Subordinated capital	92	0	0	7	0	0
Total equity and liabilities	**8,657**	**3**	**204**	**555**	**8**	**6,081**
Contingent liabilities	**343**	**0**	**11**	**16**	**28**	**0**

31 Dec. 2013 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	228	169	0	0
Loans and advances to customers	3,475	2	507	110	77	38
Allowances for losses on loans and advances	0	0	– 43	– 1	– 4	0
Financial assets measured at fair value through profit or loss	3,110	0	1,333	102	4	0
Financial investments	32	0	250	54	24	12,722
Total assets	**6,805**	**2**	**2,275**	**434**	**101**	**12,760**
Deposits from banks	6,515	0	52	131	0	0
Deposits from customers	114	4	156	163	9	13,080
Financial liabilities measured at fair value through profit or loss	2,011	0	116	62	0	0
Subordinated capital	1,249	0	0	8	0	0
Total equity and liabilities	**9,889**	**4**	**324**	**364**	**9**	**13,080**
Contingent liabilities	**250**	**0**	**16**	**28**	**23**	**0**

Individuals regarded as related parties pursuant to IAS 24 are members of the Board of Managing Directors and of the Supervisory Board, including their relatives, of LBBW (Bank) as the parent company. Information on the remuneration of and transactions with key management individuals is shown in Note 80.

The change to receivables and liabilities in relation to other related parties and companies was due to the ordinary course of business.

Given the immateriality of business transactions with companies controlled by the shareholders of LBBW or under considerable influence, LBBW claims an exemption in accordance with IAS 24.25.

73. Off-balance sheet transactions and obligations.

Contingent liabilities and other obligations.

Contingent liabilities and other liabilities arise from contractually agreed possible future obligations that are not yet likely to materialize (likelihood of occurrence less than 50%). These obligations may arise both from guarantees given and credit lines granted to customers for a specified period but not yet drawn down. Recognized amounts reflect the possible obligations that may arise if credit lines or guarantees granted are utilized at the maximum amount. The probability of an outflow of assets is regularly reviewed. If a drawdown appears more likely than not, a provision for credit risks is entered into the accounts and the amount thereof offset by the amount of the off-balance sheet obligation.

EUR million	31 Dec. 2014	31 Dec. 2013
Contingent liabilities	**5,640**	**5,911**
Sureties and guarantee agreements	5,574	5,870
Investments accounted for using the equity method	2	5
of which obligations entered into jointly	2	5
Rediscounted bills of exchange	0	1
Other contingent liabilities	64	35
Other obligations	**24,308**	**19,757**
Irrevocable loan commitments	23,432	19,017
Payment obligations and joint liability	360	373
Obligations from rental or leasing contracts	245	248
Obligations from investment projects started	189	38
Placement and underwriting commitments	27	27
Other obligations	55	54
Total	**29,948**	**25,668**

Payment obligations and joint liability consist of additional funding obligations to central counterparties in the amount of EUR 185 million (previous year: 109 million).

In addition, contingent liabilities and other obligations of a fully-consolidated subsidiary available for sale in the amount of EUR 118 million were included last year, of which EUR 64 million was accounted for by sureties and guarantee agreements and EUR 54 million by irrevocable loan commitments.

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 guaranty (law of the federal state of Florida) for the obligations of ICON. This is based on payment obligations and on all other covenants and undertakings of Yankee towards ICON. As a result, unlimited claims could still (i.e. until the guarantee is surrendered) be referred to LBBW.

Guarantee fund.

There are additional funding obligations to the Sicherungsreserve der Landesbanken und Girozentralen (Guarantee Fund of the Landesbanken and Central Savings Banks) totaling EUR 109 million (previous year: EUR 174 million). Payment of these additional contributions can be demanded immediately in the event that an institution requires assistance.

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. Such a case did not occur in the year under review.

Liability exemptions.

In its capacity as guarantor, LBBW continues to be liable for liabilities of DekaBank Deutsche Girozentrale, Berlin and Frankfurt am Main, and LBS Landesbausparkasse Baden-Württemberg, Stuttgart and Karlsruhe, incurred until 18 July 2005 (elimination of the guarantor's liability), in certain cases depending on the time when the liabilities arose and upon their term; however, LBBW is in no event liable as guarantor for any liabilities that have arisen after this date.

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, the former Sachsen LB Landesbank Sachsen Girozentrale, Leipzig, and the former LRP Landesbank Rheinland-Pfalz, Mainz.

LBBW will also release the trustors and former guarantors of Sachsen LB inter partes from all claims for liabilities arising from the guarantor's liability (Gewährträgerhaftung) and maintenance obligation (Anstaltslast) they assumed for Sachsen LB that are asserted against the trustors and former guarantors of Sachsen LB for the first time after 31 December 2010.

Contingent claims.

EUR million	31 Dec. 2014	31 Dec. 2013
Legal disputes	4	8
Total	**4**	**8**

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. 2014	31 Dec. 2013
Loans and advances to banks	498	547
Loans and advances to customers	280	311
Financial investments	4	3
Property and equipment	3	3
Other assets	33	28
Trust assets[1)]	**818**	**892**
Deposits from banks	812	885
Deposits from customers	6	6
Other liabilities	0	1
Trust liabilities	**818**	**892**

1) Including transmitted loans.

74. PIIS exposure.

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

The exposure of LBBW Group to financial institutions, corporates and public-sector bodies from these four countries remained almost unchanged from year-end 2013 at EUR 5.4 billion. Exposure to banks located in Italy (EUR – 190 million) and Spain (EUR – 232 million) fell sharply, whereas the financial investments of public-sector bodies in Italy increased as at the balance sheet date due to an improved fair value measurement.

To banks.

EUR million	Ireland		Italy		Portugal		Spain	
	31 Dec. 2014	31 Dec. 2013	31 Dec. 2014	31 Dec. 2013	31 Dec. 2014	31 Dec. 2013	31 Dec. 2014	31 Dec. 2013
Receivables	0.7	0.6	10.0	156.3	0.5	26.7	5.2	4.4
Financial instruments measured at fair value through profit or loss (net)	29.0	– 13.1	– 21.5	12.5	0.3	– 0.2	249.1	258.9
Derivatives	– 50.0	– 96.8	38.0	5.8	– 1.4	– 1.9	– 100.0	– 37.6
Financial investments (AfS)	0.0	0.0	39.2	48.9	0.0	0.0	72.8	295.8
Revaluation reserve	0.0	0.0	2.5	2.2	0.0	0.0	5.3	5.0
Total	**29.7**	**– 12.5**	**27.7**	**217.7**	**0.8**	**26.5**	**327.1**	**559.1**
Additional CDS information on the above item »Derivatives«								
CDS asset items	0.0	0.0	0.3	0.8	0.0	– 0.1	1.5	4.0
CDS liability items	0.0	0.0	– 0.3	– 0.4	0.0	0.1	– 0.7	– 2.8
Nominals of CDS assets	0.0	0.0	140.0	448.0	0.0	20.0	232.0	465.0
Nominals of CDS liabilities	0.0	0.0	– 135.0	434.0	0.0	20.0	– 230.0	455.0

To corporates.

EUR million	Ireland		Italy		Portugal		Spain	
	31 Dec. 2014	31 Dec. 2013	31 Dec. 2014	31 Dec. 2013	31 Dec. 2014	31 Dec. 2013	31 Dec. 2014	31 Dec. 2013
Receivables	365.6	375.9	175.0	174.8	20.1	22.6	652.1	761.0
Allowances for losses on loans and advances (specific loan loss provisions)	0.0	0.0	0.0	– 1.5	0.0	0.0	– 34.0	– 20.8
Financial instruments measured at fair value through profit or loss (net)	40.1	– 13.3	2.5	7.2	0.0	0.0	– 1.0	44.5
Derivatives	6.7	6.1	10.7	6.9	0.0	0.0	69.3	41.1
Financial investments (AfS)	9.5	6.5	0.0	0.0	0.0	0.0	0.0	0.0
Revaluation reserve	2.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial investments (LaR)	19.6	19.4	0.0	0.0	0.0	0.0	0.0	0.0
Total	**434.8**	**388.5**	**177.5**	**180.5**	**20.1**	**22.6**	**617.1**	**784.7**
Additional CDS information on the above item »Derivatives«								
CDS asset items	0.0	0.1	0.8	2.0	0.0	0.1	1.0	1.7
CDS liability items	0.0	– 0.1	– 0.5	– 1.8	0.0	– 0.1	– 0.5	– 1.2
Nominals of CDS assets	0.0	5.0	116.1	225.7	0.0	12.0	121.5	156.5
Nominals of CDS liabilities	0.0	6.0	– 76.6	172.1	0.0	10.0	– 95.0	147.0

To public sector.

EUR million	Ireland		Italy		Portugal		Spain	
	31 Dec. 2014	31 Dec. 2013	31 Dec. 2014	31 Dec. 2013	31 Dec. 2014	31 Dec. 2013	31 Dec. 2014	31 Dec. 2013
Receivables	0.0	0.0	0.0	0.0	0.0	0.0	4.1	7.5
Financial instruments measured at fair value through profit or loss (net)	– 0.1	1.2	– 0.5	– 0.6	– 0.3	– 0.4	0.0	1.7
Derivatives	– 0.1	– 0.1	– 0.5	– 0.6	– 0.4	– 0.5	0.0	0.0
Financial investments (AfS)	0.0	0.0	2,660.4	2,300.4	283.5	251.9	776.9	709.2
Revaluation reserve	0.0	0.0	– 289.7	– 377.2	– 9.0	– 40.6	– 57.0	– 92.2
Total	**– 0.1**	**1.2**	**2,659.9**	**2,299.8**	**283.2**	**251.5**	**781.0**	**718.4**
Additional CDS information on the above item »Derivatives«								
CDS asset items	0.1	– 0.7	– 1.9	– 17.1	– 1.9	– 6.6	0.8	– 31.0
CDS liability items	– 0.1	0.7	1.5	– 2.7	1.5	6.1	– 0.8	– 8.9
Nominals of CDS assets	49.3	89.0	351.6	728.3	68.6	123.0	137.8	1,359.6
Nominals of CDS liabilities	– 57.5	86.1	– 340.8	754.4	– 69.0	120.9	– 134.9	1,393.3

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

75. Counterparty risk.

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

Maximum counterparty risk together with risk-reducing measures.

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

31 Dec. 2013 EUR million	Gross exposure	Netting/ collateral	Credit derivatives (protection buy)	Credit collateral	Net exposure
Cash and cash equivalents	2,369	0	0	0	2,369
Assets carried at fair value					
Trading assets	98,699	29,341	20,500	1,314	47,544
Financial assets designated at fair value	761	0	0	24	737
Positive fair values from hedging derivatives	4,891	4,652	0	15	224
Financial investments (AfS)	20,928	0	50	130	20,748
interest-bearing assets	18,248	0	50	130	18,068
non-interest-bearing assets	2,680	0	0	0	2,680
Assets carried at amortized cost					
Loans and advances to banks	66,929	20,219	0	2,331	44,379
Loans and advances to customers	114,631	13,790	0	35,790	65,051
of which finance leases	5,552	0	0	574	4,978
Financial investments (LaR)	16,497	500	0	23	15,974
interest-bearing assets	16,438	500	0	23	15,915
non-interest-bearing assets	59	0	0	0	59
Non-current assets held for sale and disposal groups	58	0	0	0	58
Total	**325,763**	**68,502**	**20,550**	**39,627**	**197,084**
Loan commitments and other agreements	48,880	0	0	3,154	45,726
Total exposure	**374,643**	**68,502**	**20,550**	**42,781**	**242,810**

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

Portfolio quality – exposure in arrears and not impaired.

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

As at the balance sheet date of 31 December 2014, this applied to gross exposure of EUR 569 million, equivalent to 0.16 % of the portfolio. More than half of these cases were in arrears for less than/for a month.

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

31 Dec. 2014 EUR million	<=1 month	> 1 to 3 months	> 3 to 6 months	> 6 to 9 months	> 9 to 12 months	> 12 months	Total
Assets carried at amortized cost							
Loans and advances to banks	4	0	3	3	6	0	15
Loans and advances to customers	329	55	39	2	16	88	528
of which finance leases	7	1	0	0	0	0	8
Total	**333**	**55**	**41**	**5**	**21**	**88**	**544**
Loan commitments and other agreements	0	4	22	0	0	0	26
Total exposure	**333**	**59**	**63**	**5**	**21**	**88**	**569**

The increase over the previous year is due for one to a more precise calculation of the number of days in arrears for the purpose of these financial statements. Secondly, there was harmonization with the financial reporting prepared on the basis of European Banking Authority (EBA) provisions, whereby the previous de-minimus limit in accordance with SolvV (min. EUR 100 or overdraft amount > 2.5 % of a borrower's total exposure) no longer applies.

31 Dec. 2013 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 customers	8	12	22	1	2	45	91
Total exposure	**8**	**12**	**22**	**1**	**2**	**45**	**91**

Portfolio quality – impaired assets.

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

EUR million	31 Dec. 2014	31 Dec. 2013
Assets carried at fair value		
Financial investments (AfS)	1	71
interest-bearing assets	1	71
Assets carried at amortized cost		
Loans and advances to banks	16	20
Loans and advances to customers	2,548	3,414
of which finance leases	112	167
Financial investments (LaR)	0	337
interest-bearing assets	0	337
Total	**2,565**	**3,842**
Loan commitments and other agreements	208	235
Total exposure	**2,773**	**4,077**

Impaired assets decreased by EUR 1.3 billion compared with 31 December 2013. The change primarily related to loans and advances to customers and resulted from derecognition of loans recognized directly in equity, for which an allowance was in place. The downsizing of the securitization portfolio triggered the reduction in impaired financial investments AfS and impaired financial investments LaR.

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

	31 Dec. 2014		31 Dec. 2013	
	Total in EUR million	Total in %	Total in EUR million	Total in %
1) Termination/repayment/insolvency	448	16.2	620	15.2
2) Arrears/infringement > 90 days [1]	308	11.1	427	10.5
3) Improbable repayment [2]	2,017	72.7	3,030	74.3
Total	**2,773**		**4,077**	

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

The decline in the impaired exposure has increased the share of the portfolio of assets that are neither impaired nor in arrears to 99.1% (previous year: 98.9%).

Forbearance.

As at 31 December 2014, LBBW Group holds assets with a carrying amount of EUR 1.5 billion for which forbearance measures were adopted. Modifications in relation to the terms and conditions were mainly granted. LBBW has received guarantees of EUR 0.3 billion for these assets.

76. 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 the overall bank management process, 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 Regulatory/Accounting Committee was established in 2013 in order to evaluate in good time the requirements of the large number of provisions of banking supervisory law and accounting that are relevant for management purposes, and to take 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.

With the entry into force of CRR/CRD IV (Capital Requirements Regulation / Capital Requirements Directive) as at 1 January 2014, the requirements for calculating regulatory own funds that were previously governed in the Solvency Regulation (SolvV) were replaced by the directly applicable provisions of Regulation (EU) No. 575/2013. In this context, the SolvV applicable since 1 January 2014 only comprises procedural provisions and specifications for implementing national flexibility with regard to Regulation (EU) No. 575/2013. LBBW Group's own funds are calculated on the basis of these requirements and are based on the regulatory capital adequacy provisions relevant for banking groups.

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 ratio (basis: CET1 capital) of 4.5%
- 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%

Owing to the transitional provisions in accordance with article 465 in conjunction with article 23 SolvV, the following ratios deviating from above had to be complied with by the end of each business day in 2014:

- Common equity Tier 1 ratio (basis: CET1 capital) of 4.0%
- Tier 1 ratio (basis: common equity Tier 1 capital and additional Tier 1 capital) of 5.5%.

The ratios are derived from the respective capital components expressed as a percentage of the total exposure amount. The total exposure amount is calculated as the equity requirements 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, multiplied by a factor of 12.5. These ratios required by the supervisory authorities were maintained at all times during the 2014 financial year.

The own funds derive from the sum of Tier 1 and supplementary capital.

Tier 1 capital consists of common equity Tier 1 capital and additional Tier 1 capital, whereby the common equity Tier 1 capital comprises the paid-in capital, associated premiums (capital reserves), retained earnings and other reserves.

The additional Tier 1 capital comprises the silent partners' contributions and preference shares. 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 SolV. 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 subordinated liabilities and profit-participation certificates, 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, the 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. Hence, neither the revaluation reserves for securities on central states and equity investments nor deferred taxes from non-temporary differences in 2014 have to be taken into account as deductibles. The following must be taken into account as deductions of 20%: intangible assets and goodwill, the value adjustment deficit, the revaluation reserves from other securities, as well as gains/losses from derivative liabilities recognized at fair value resulting from LBBW's own credit risk. The remaining 80% of the aforementioned deductions for immaterial assets is deducted in equal amounts from goodwill and additional Tier 1 capital. The remaining value adjustment deficit of 80% is deducted in equal amounts from additional Tier 1 capital and supplementary 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 2014.

As at 1 January 2008, LBBW received permission from Bundesanstalt für Finanzdienstleistungsaufsicht (the German Federal Financial Supervisory Authority – BaFin) to use the approach based on internal ratings to calculate capital adequacy for counterparty risks arising from the major classes of receivables. 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 basis of consolidation.

The following table shows the structure of the LBBW Group's own funds:

EUR million	31 Dec. 2014	31 Dec. 2013
Equity	**16,315**	**17,853**
Core capital (Tier 1)	12,972	14,711
of which: common equity Tier 1 capital (CET I)	12,015	12,437
of which additional Tier 1 capital (AT I)	957	2,274
Supplementary capital (Tier 2)	3,343	2,927
Tier 3 capital[1]	0	215
Total amount at risk (formerly position subject to a capital charge)	**82,182**	**79,351**
Risk weighted exposure amounts for the credit, counterparty and dilution risk, as well as advance payments	65,500	64,463
Risk exposure value for settlement and delivery risks	1	0
Total exposure amount for position, foreign exchange and commodity risk	9,061	10,288
Total risk exposure amount for operational risks	5,065	4,600
Total amount of risk due to CVA	2,554	0
Total capital ratio (in %)	**19.9**	**22.5**
Tier 1 capital ratio in %	**15.8**	**18.5**
Common equity Tier 1 ratio (in %)	**14.6**	**15.7**

1) Position no longer relevant under CRR

EUR million	31 Dec. 2014	31 Dec. 2013
Core capital (Tier 1)	**12,972**	**14711**
Paid-in capital instruments	3,484	3,484
Discount	8,240	8,240
Additional Tier 1 capital (AT I)	957	2,274
Retained profits, cumulative result and other reserves	882	748
Reserve for general banking risks in accordance with section 340g HGB [1]	0	495
Deductible from CET1 capital incl. 50% deduction, section 10 (2a), 6, 6a KWG[2]	0	– 530
Deductibles from CET1 capital in accordance with CRR	– 591	0

1) HGB position no longer relevant for IFRS.
2) Position no longer relevant under CRR

Explanation of the changes in 2013 versus 2014.
Under CRR, IFRS carrying amounts must be used instead of the previous HGB carrying amounts for the total amount at risk and for own funds. The values shown above as at 31 December 2013 are reported under the law applicable at that time in accordance with SolvV.

Following approval of the 2013 annual financial statements, EUR 1 billion in silent-partners' contributions was repaid to the guarantors. In addition, the change in the legal provisions led to a reduction in additional Tier 1 capital. Due to the transitional provisions that will apply until 2017, deductions that must be deducted in full from the common equity Tier 1 capital can be deducted in part from the additional Tier 1 capital.

The increase in supplementary capital resulted mainly from the new issue of EUR 500 million in subordinated liabilities. Tier 3 capital can no longer be included in accordance with CRR.

Due to the new capital requirements for risk, the increase in the total amount at risk results mainly from an adjustment to the credit valuation of OTC derivatives. Further effects when calculating the capital requirements for risk weighted exposure amounts include the higher capital requirements for exposures to companies in the financial sector and new capital requirements for loans and advances to central counterparties, among other things. This development was countered by the reduction in securitization positions, among other things.

77. Events after the balance sheet date.

No significant events have occurred since 1 January 2015 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.

78. List of shareholdings and information on subsidiaries, associates and joint ventures.

The associates' shares in the aggregate assets and liabilities, as well as revenues and profits/losses for the period are presented in Note 39.

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 (11 a) HGB as at the reporting date. The list of shareholdings shows the companies for which a letter of comfort has been issued.

Name	Place of business	Share of capital in %	Non-prop. voting rights in%	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)						
Alpha Real Estate (Luxembourg) S.à.r.l. 1) 11)	Luxembourg, Luxembourg	100.00		EUR	– 27.78	– 9.25
ALVG Anlagenvermietung GmbH 1) 4a) 11)	Stuttgart	100.00		EUR	19,000.00	0.00
Austria Beteiligungsgesellschaft mbH 11)	Stuttgart	66.67		EUR	35,566.20	107.55
Bahnhofplatz Objekt-GmbH & Co. KG 1)	Stuttgart	100.00		EUR	13,441.51	3,654.36
Bahnhofplatz Objektverwaltungs-GmbH 1) 11)	Stuttgart	100.00		EUR	13.87	0.09
Bahnhofplatz-Gesellschaft Stuttgart AG 1) 4a) 11)	Stuttgart	93.22		EUR	4,452.44	0.00
Bauwerk-Stuttgart GmbH 1) 11)	Stuttgart	75.00		EUR	– 562.05	361.69
BETA REAL ESTATE (Luxembourg) S.à.r.l. 1) 11)	Luxembourg, Luxembourg	100.00		EUR	– 0.24	– 2.42
BW Capital Markets Inc. 3) 11)	Wilmington, New Castle County, USA	100.00		USD	3,144.34	2,656.28
BW-Immobilien GmbH 1) 4a) 11)	Stuttgart	100.00		EUR	3,200.07	0.00
Centro Alemán de Industria y Comercio de México S.de R.L.de C.V. 2) 11)	México, D. F., Mexico	100.00		MXN	– 9,969.14	1,070.57
CFH Beteiligungsgesellschaft mbH 1) 11)	Leipzig	100.00		EUR	69,860.97	7,674.93
Château de Beggen Participations S.A. 1) 11)	Luxembourg, Luxembourg	100.00		EUR	– 29.98	– 3.97
Dritte Industriehof Objekt-GmbH & Co. KG 1)	Stuttgart	100.00		EUR	701.91	1,507.84
Dritte LBBW US Real Estate GmbH 11)	Leipzig	100.00		EUR	6,290.39	4,092.02
EAST Portfolio s.r.o. 3a) 11)	Prague 1, Czech Republic	100.00			n.a.	n.a.
Employrion Komplementär GmbH 1) 11)	Weil	100.00		EUR	28.19	1.04
Entwicklungsgesellschaft Grunewaldstraße 61 – 62 mbH & Co. KG 1) 11)	Stuttgart	94.84	94.90	EUR	– 3,528.95	62.75
Entwicklungsgesellschaft Uhlandstraße 187 GmbH & Co. KG 1) 11)	Stuttgart	94.90		EUR	– 2,856.87	– 14.04
Erste IMBW Capital & Consulting Komplementär GmbH 1) 11)	Weil	100.00		EUR	27.16	1.12
Erste Industriehof Objekt-GmbH & Co. KG 1)	Stuttgart	100.00		EUR	450.16	100.13
EuroCityCenterWest GmbH & Co. KG 1) 11)	Stuttgart	100.00		EUR	– 19,863.60	– 4,647.13
EuroCityCenterWest Verwaltungs-GmbH 1) 11)	Stuttgart	94.80		EUR	35.53	0.72
FLANTIR PROPERTIES LIMITED 1) 11)	Nicosia, Cyprus	100.00		RUB	– 16,896.72	– 6,724.89
FOM/LEG Verwaltungs GmbH 1) 11)	Heidelberg	50.00		EUR	– 12.00	– 23.75
Fünfte Industriehof Objekt-GmbH & Co. KG 1)	Stuttgart	100.00		EUR	634.23	335.07
Ganghofer Straße München GmbH & Co. KG 1)	Stuttgart	100.00			n.a.	n.a.
Ganghofer Straße München Komplementär GmbH 1)	Stuttgart	100.00			n.a.	n.a.
German Centre for Industry and Trade GmbH, Beteiligungsgesellschaft 4) 11)	Stuttgart	100.00		EUR	3,942.99	0.00
German Centre for Industry and Trade Pte. Ltd. Singapore 1) 11)	Singapore, Singapore	100.00		SGD	16,780.87	2,491.31
Grundstücksgesellschaft Einkaufszentrum Haerder-Center Lübeck mbH & Co. KG 1) 11)	Stuttgart	94.00		EUR	– 24,591.74	– 1,364.80
Grunewaldstraße 61 – 62 GmbH 1) 11)	Stuttgart	100.00		EUR	27.37	0.73
IMBW Capital & Consulting GmbH 1) 4a) 11)	Stuttgart	100.00		EUR	250.00	0.00
Immobilienvermittlung BW GmbH 11)	Stuttgart	100.00		EUR	2,589.43	89.43
Industriehof Objektverwaltungs-GmbH 1) 11)	Stuttgart	100.00		EUR	35.42	– 0.46
Industriehof-Aktiengesellschaft 1) 4a) 11)	Stuttgart	93.63		EUR	23,281.64	0.00
IRP Immobilien-Gesellschaft Rheinland-Pfalz mbH 1) 4a) 11)	Mainz	51.41		EUR	16.41	– 169.72
John Deere Leasing GmbH 1) 11)	Mannheim	100.00		EUR	578.97	210.97
Kiesel Finance Management GmbH 1) 11)	Baienfurt	90.00		EUR	31.61	2.11
Kommunalbau Rheinland-Pfalz GmbH 1) 4a) 11)	Mainz	51.40		EUR	783.43	– 158.07
Landesbank Baden-Württemberg Capital Markets Plc 3) 11)	London, Great Britain	100.00		EUR	5,710.00	122.00
LBBW Asset Management Investmentgesellschaft mbH 3) 11)	Stuttgart	100.00		EUR	34,226.58	14,478.16
LBBW Dublin Management GmbH 3) 4) 11)	Stuttgart	100.00		EUR	20,845.91	0.00
LBBW Grundstücksverwaltungsgesellschaft mbH & Co. KG Objekt am Pariser Platz Stuttgart 11)	Stuttgart	100.00		EUR	76,449.33	– 9,471.95
LBBW Grundstücksverwaltungsgesellschaft mbH & Co. OHG Objekt Am Hauptbahnhof Stuttgart 11)	Stuttgart	100.00		EUR	– 118,546.32	– 314.46
LBBW Immobilien Asset Management GmbH 1) 4a)	Stuttgart	100.00			n.a.	n.a.

CONSOLIDATED FINANCIAL STATEMENTS

Name	Place of business	Share of capital in %	Non-prop. voting rights in%	Currency	Equity EUR th.	Result EUR th.
LBBW Immobilien Capital Fischertor GmbH & Co. KG 1) 11)	Munich	93.98	94.00	EUR	– 5,300.15	– 132.31
LBBW Immobilien Capital GmbH 1) 11)	Stuttgart	100.00		EUR	– 2,859.63	– 15.10
LBBW Immobilien Development GmbH 1) 4a) 11)	Stuttgart	94.90		EUR	15,783.69	0.00
LBBW Immobilien GmbH & Co. Beteiligung KG 1) 11)	Stuttgart	100.00		EUR	29,320.40	1,041.49
LBBW Immobilien Kommunalentwicklung GmbH 1) 4a) 11)	Stuttgart	81.62		EUR	2,016.51	0.00
LBBW Immobilien Luxembourg S. A. 1) 11)	Luxembourg, Luxembourg	100.00		EUR	– 75,942.54	– 83.75
LBBW Immobilien Management Gewerbe GmbH 1) 4a) 11)	Stuttgart	94.90		EUR	3,303.97	0.00
LBBW Immobilien Management GmbH 1) 4a) 11)	Stuttgart	100.00		EUR	425,694.37	0.00
LBBW Immobilien M_Eins Berlin GmbH 1)	Stuttgart	100.00			n.a.	n.a.
LBBW Immobilien Romania S.R.L. 1) 11)	Bucharest, Romania	100.00		RON	– 26,364.23	– 2,592.82
LBBW Immobilien Süd GmbH & Co. KG 1) 11)	Stuttgart	100.00		EUR	– 42,798.97	1,819.24
LBBW Immobilien Versicherungsvermittlung GmbH 1) 4a) 11)	Stuttgart	100.00		EUR	25.00	0.00
LBBW Immobilien-Holding GmbH 4) 11)	Stuttgart	100.00		EUR	439,050.54	0.00
LBBW Leasing GmbH 4) 11)	Stuttgart	100.00		EUR	266,088.54	0.00
LBBW México, S.A. DE C.V., SOFOM, E.N.R. 2) 11)	México, Mexico	100.00		MXN	3,690.64	769.10
LBBW Service GmbH 4) 11)	Stuttgart	100.00		EUR	224.67	0.00
LBBW Spezialprodukte-Holding GmbH 4) 11)	Stuttgart	100.00		EUR	101,871.73	0.00
LBBW US Real Estate Investment LLC 5)	Wilmington, New Castle County, USA	100.00		USD	40,191.23	11.01
LBBW Venture Capital Gesellschaft mit beschränkter Haftung 11)	Stuttgart	100.00		EUR	25,302.79	– 3,374.33
LEG Baden-Württemberg Verwaltungs-GmbH 1) 11)	Stuttgart	100.00		EUR	26.33	1.66
LEG Projektgesellschaft 2 GmbH & Co. KG 1) 11)	Stuttgart	100.00		EUR	5,400.75	396.21
LEG Verwaltungsgesellschaft 2 mbH 1) 11)	Stuttgart	100.00		EUR	28.27	0.56
LOOP GmbH 1) 11)	Stuttgart	100.00		EUR	– 58.75	– 2.84
LRP Capital GmbH 1) 11)	Stuttgart	100.00		EUR	16,993.79	2,993.79
Mannheim O 4 Projektgesellschaft mbH & Co. KG 1) 3b) 11)	Stuttgart	100.00		EUR	– 264.15	– 100.64
MANUKA Grundstücks-Verwaltungsgesellschaft mbH 1) 11)	Stuttgart	100.00		EUR	57.57	0.65
MKB Mittelrheinische Bank Gesellschaft mit beschränkter Haftung 11)	Koblenz	100.00		EUR	47,469.74	6,704.27
MKB Versicherungsdienst GmbH 1) 4a) 11)	Koblenz	100.00		EUR	27.05	0.00
MMV Leasing Gesellschaft mit beschränkter Haftung 1) 4a) 11)	Koblenz	100.00		EUR	21,000.00	0.00
MMV-Mobilien Verwaltungs- und Vermietungsgesellschaft mbH 1) 4a) 11)	Koblenz	100.00		EUR	26.00	0.00
Nagatino Property S.à.r.l. 1) 11)	Luxembourg, Luxembourg	100.00		EUR	– 27,630.67	275.97
Nymphenburger Straße München GmbH & Co. KG 1)	Stuttgart	100.00			n.a.	n.a.
Nymphenburger Straße München Komplementär GmbH 1)	Stuttgart	100.00			n.a.	n.a.
Parc Helfent Participations S.A. 1) 11)	Luxembourg, Luxembourg	100.00		EUR	969.16	– 7.36
Projekt 20 Verwaltungs GmbH 1) 11)	Munich	100.00		EUR	34.41	1.30
Projektgesellschaft Bockenheimer Landstraße 33 –35 GmbH & Co. KG i. L. 1) 11)	Stuttgart	94.00	50.00	EUR	251.88	– 8.15
Rebstockpark 7.1 Entwicklungsgesellschaft mbH & Co. KG 1) 11)	Stuttgart	100.00		EUR	– 84.69	– 81.54
Rheinpromenade Mainz GmbH & Co. KG 1) 11)	Stuttgart	100.00		EUR	– 2.73	– 3.73
Schlossgartenbau Objekt-GmbH & Co. KG 1)	Stuttgart	100.00		EUR	18,548.97	6,722.46
Schlossgartenbau Objektverwaltungs-GmbH 1) 11)	Stuttgart	100.00		EUR	11.80	0.09
Schlossgartenbau-Aktiengesellschaft 1) 4a) 11)	Stuttgart	92.68		EUR	6,592.42	0.00
Schockenried GmbH & Co. KG 1) 11)	Stuttgart	100.00		EUR	– 5,035.43	– 884.48
Schockenriedverwaltungs GmbH 1) 11)	Stuttgart	94.80		EUR	26.23	0.45
SG Management GmbH 1) 11)	Stuttgart	100.00		EUR	9,137.78	– 144.17
SGB - Hotel GmbH & Co. KG 1) 11)	Stuttgart	100.00		EUR	– 1,429.37	– 82.61
SLN Maschinen-Leasing Verwaltungs-GmbH 1) 11)	Stuttgart	100.00		EUR	1,180.63	141.31
SLP Mobilien-Leasing Verwaltungs-GmbH 1) 11)	Mannheim	100.00		EUR	5,370.98	196.41
Süd Beteiligungen GmbH 11)	Stuttgart	100.00		EUR	235,503.14	5,506.01
Süd KB Unternehmensbeteiligungsgesellschaft mbH 1) 11)	Stuttgart	100.00		EUR	47,269.96	– 838.70
SüdFactoring GmbH 3) 4) 11)	Stuttgart	100.00		EUR	70,000.00	0.00
Süd-Kapitalbeteiligungs-Gesellschaft mbH 1) 4a) 11)	Stuttgart	100.00		EUR	88,981.87	0.00

Name	Place of business	Share of capital in %	Non-prop. voting rights in%	Currency	Equity EUR th.	Result EUR th.
SüdLeasing GmbH [2) 4a) 11)]	Stuttgart	100.00		EUR	32,085.00	0.00
Turtle Beteiligungs-Ehningen II GmbH [1) 11)]	Frankfurt am Main	100.00		EUR	26.91	0.43
Turtle Beteiligungs-Hannover-City GmbH [1) 11)]	Frankfurt am Main	100.00		EUR	6.04	– 1.59
Turtle Beteiligungs-Portfolio GmbH [1) 11)]	Frankfurt am Main	100.00		EUR	12.50	– 2.66
Turtle Ehningen II GmbH & Co. KG [1) 11)]	Frankfurt am Main	100.00		EUR	– 51.53	– 5.51
Turtle Portfolio GmbH & Co. KG [1) 11)]	Frankfurt am Main	100.00		EUR	– 48,562.69	– 5,045.04
Turtle 1. Verwaltungs-GmbH [1) 11)]	Frankfurt am Main	100.00		EUR	40.51	– 3.46
Uhlandstraße 187 GmbH [1) 11)]	Stuttgart	100.00		EUR	26.86	0.80
Vermietungs- und Verwaltungsgesellschaft Sendlinger Straße GmbH & CO. KG [1) 3b) 11)]	Stuttgart	99.00		EUR	3.39	35,237.02
Vermietungs- und Verwaltungsgesellschaft Sendlinger Straße mbH [1) 11)]	Stuttgart	100.00		EUR	19.69	– 0.70
Vierte Industriehof Objekt-GmbH & Co. KG [1)]	Stuttgart	100.00		EUR	1,176.78	848.76
VVS II GmbH & Co. KG [1) 3b) 11)]	Stuttgart	99.00		EUR	– 289.65	3,813.92
VVS II Verwaltungs-GmbH [1) 11)]	Stuttgart	100.00		EUR	17.01	– 0.63
VVS III GmbH & Co. KG [1) 3b) 11)]	Stuttgart	99.00		EUR	9.42	6,348.56
VVS III Verwaltungs-GmbH [1) 11)]	Stuttgart	100.00		EUR	13.63	– 3.47
Zorilla Mobilien-Leasing GmbH [1) 11)]	Mannheim	100.00		EUR	59.61	– 3.21
Zweite IMBW Capital & Consulting Komplementär GmbH [1) 11)]	Stuttgart	100.00		EUR	24.32	1.75
Zweite Industriehof Objekt-GmbH & Co. KG [1)]	Stuttgart	100.00		EUR	19,825.72	4,697.76
Zweite LBBW US Real Estate GmbH [11)]	Leipzig	100.00		EUR	53,675.29	2,129.70
b. Fully consolidated subsidiaries (authority over contractual agreements)						
aiP Gärtnerplatz GmbH & Co. KG [1) 11)]	Oberhaching	45.00	50.00	EUR	– 3,095.65	13,028.80
aiP Isarauen GmbH & Co. KG [1) 3b) 11)]	Oberhaching	45.00	50.00	EUR	10.00	1,994.63
BW Bank Capital Funding LLC I [1) 3) 11)]	Wilmington, New Castle County, USA	100.00		EUR	50,004.00	1,807.58
BW Bank Capital Funding Trust I [1) 20)]	Wilmington, New Castle County, USA	0.00	100.00		n.a.	n.a.
Employrion Immobilien GmbH & Co. KG [1) 11)]	Weil	35.00	50.00	EUR	53.16	0.00
Erste IMBW Capital & Consulting Objektgesellschaft mbH & Co. KG [1) 11)]	Weil	40.00	50.00	EUR	– 11.57	17,221.20
FOM/LEG Generalübernehmer GmbH & Co. KG [1) 11)]	Heidelberg	50.00		EUR	– 8,803.46	– 104.67
Grundstücksgesellschaft Einkaufszentrum Kröpeliner-Tor-Center Rostock mbH & Co. KG [1) 11)]	Berlin	39.94	50.00	EUR	– 8,766.36	– 208.78
Humboldt Multi Invest B SICAV-FIS Sachsen LB Depot A [8) 18)]	Luxembourg, Luxembourg	100.00		EUR	45,979.85	2,245.19
Kyma Grundstücksverwaltungsgesellschaft mbH & Co. Objekt Löhr's Carré KG [11) 20)]	Haar			EUR	– 1,305.55	4,603.01
Spencerview Asset Management Ltd. [11) 20)]	Dublin 2, Ireland			EUR	1.95	0.63
Turtle Vermögensverwaltungs-GmbH & Co. KG [1) 11)]	Frankfurt am Main	49.00	50.00	EUR	– 99.55	– 9.21
Weinberg Capital Ltd. [11) 20)]	Dublin 2, Ireland			EUR	32.29	– 92.00
Weinberg Funding Ltd. [11) 20)]	St. Helier, Jersey			EUR	3.99	0.25
2. Joint ventures accounted for using the equity method						
Alida Grundstücksverwaltungsgesellschaft mbH & Co. Vermietungs-KG [1)]	Pullach i. Isartal	99.04	50.00	EUR	5,254.76	2,245.76
ARGE ParkQuartier Berg [1) 9)]	Stuttgart	50.00		EUR	– 735.50	– 1,210.85
Bad Kreuznacher Entwicklungsgesellschaft mbH (BKEG) [1) 11)]	Bad Kreuznach	50.00		EUR	– 48.23	– 24.61
LHI Leasing GmbH [1) 11)]	Pullach i. Isartal	51.00		EUR	50,339.47	6,589.44
OVG MK6 GmbH [1) 3b) 11)]	Berlin	50.00		EUR	3.87	– 21.13
Parcul Banatului SRL [1) 11)]	Bucharest, Romania	50.00		EUR	– 23,135.38	– 5,306.15
SGB - Hotel - Verwaltung GmbH [1) 11)]	Stuttgart	50.00		EUR	18.45	5.88
TCD LEG/FOM GbR [1) 11)]	Stuttgart	50.00		EUR	190.09	0.29
3. Associates accounted for using the equity method						
Altstadt-Palais Immobilien GmbH & Co. KG [1) 11)]	Weil	40.00	50.00	EUR	– 58.90	– 113.44
Bauland Kruft Süd GmbH [1) 11)]	Mainz	51.00		EUR	– 522.27	– 20.30
BWK GmbH Unternehmensbeteiligungsgesellschaft [1) 11) 19)]	Stuttgart	55.00		EUR	283,670.59	39,123.26
EGH Entwicklungsgesellschaft Heidelberg GmbH & Co. KG [1) 11)]	Heidelberg	33.33		EUR	1,198.41	395.94
EGH Projektgesellschaft Heidelberg GmbH [1) 11) 20)]	Heidelberg	0.00		EUR	37.03	3.31
Vorarlberger Landes- und Hypothekenbank AG [1) 11)]	Bregenz, Austria	23.97		EUR	787,132.62	59,872.53

Name	Place of business	Share of capital in %	Non-prop. voting rights in%	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)						
aiP Gärtnerplatz Verwaltungs GmbH [1) 11)]	Oberhaching	100.00		EUR	20.50	– 1.31
aiP Hirschgarten 1 Verwaltungs GmbH [1) 11)]	Oberhaching	100.00		EUR	28.87	0.11
aiP Isarauen Verwaltungs GmbH [1) 11)]	Oberhaching	100.00		EUR	24.89	0.50
B. & C. Leasing GmbH & Co. KG [1) 11) 20)]	Mannheim	0.00	75.00	EUR	1 631.22	– 106.31
Baden-Württembergische Equity Gesellschaft mit beschränkter Haftung [11)]	Stuttgart	100.00		EUR	925.85	113.20
Britta Grundstücksverwaltungsgesellschaft mbH [1) 4a) 11)]	Mannheim	100.00		EUR	25.56	0.00
BW Leasing GmbH & Co. KG i.L. [1) 11)]	Mannheim	100.00		EUR	94.81	– 18.09
CARGO SL Mobilien-Leasing GmbH & Co. KG [1) 11) 20)]	Mannheim	0.00	75.00	EUR	475.56	36.54
cellent AG [1) 14)]	Vienna, Austria	100.00		EUR	4,232.92	274.53
cellent AG [11)]	Stuttgart	100.00		EUR	13,235.32	147.73
Cellent Finance Solutions GmbH [11)]	Stuttgart	100.00		EUR	2,829.48	831.04
cellent Mittelstandsberatung GmbH [1) 11)]	Böblingen	100.00		EUR	2,048.67	229.98
DBW Advanced Fiber Technologies GmbH [1) 11)]	Bovenden	100.00		EUR	30,696.73	3,374.55
DBW Automotive Components Shanghai Co., Ltd. [1) 11)]	Shanghai, China	80.00		CNY	1,116.59	314.09
DBW Fiber Corporation [1) 11)]	Summerville, USA	100.00		USD	1,372.25	– 371.95
DBW Holding GmbH [1) 11)]	Bovenden	99.16	94.64	EUR	22,055.52	– 5.59
DBW Hungary KFT [1) 11)]	Tapolca, Hungary	100.00		EUR	3,321.41	1,921.06
DBW Ibérica Industria Automoción, S.A. [1) 11)]	Vall d'Uxo Castellón, Spain	100.00		EUR	1,125.45	440.89
DBW Japan Ltd. [1) 11)]	Tokyo, Japan	100.00		JPY	– 158.56	– 69.09
DBW Kaliningrad O.O.O. [1) 11)]	Kaliningrad, Russia	99.00		RUB	– 116.46	– 85.22
DBW Metallverarbeitung GmbH [1) 4a) 11)]	Ueckermünde	100.00		EUR	1,233.88	0.00
DBW Polska Sp.z. o.o. [1) 11)]	Cigacice, Poland	100.00		PLN	3,239.42	1,404.88
DBW-Fiber-Neuhaus GmbH [1) 4a) 11)]	Neuhaus am Rennweg	100.00		EUR	3,000.00	0.00
Euro Leasing AG [1) 11)]	Luxembourg, Luxembourg	100.00		EUR	148.00	– 6.60
Finclusive Alfmeier Leasing Services GmbH & Co. KG i.L. [1) 11)]	Mannheim	100.00		EUR	68.70	1.57
FIRKO Betreuungs GmbH [1) 11)]	Leipzig	100.00		EUR	520.13	35.86
FIRKO Betreuungs GmbH & Co. Windpark Zaulsdorf KG [11)]	Leipzig	100.00		EUR	167.32	36.76
Franca Grundstücksverwaltungsgesellschaft mbH [1) 4a) 11)]	Mannheim	100.00		EUR	525.81	0.00
Franca Grundstücksverwaltungsgesellschaft mbH & Co. Immobilien KG [11)]	Mannheim	100.00		EUR	2,084.67	– 248.83
FRONTWORX Informationstechnologie AG [1) 11)]	Vienna, Austria	100.00		EUR	597.44	522.02
German Centre for Industry and Trade Beijing Co., Ltd. [11)]	Beijing, China	100.00		CNY	2,885.00	565.75
Gmeinder Lokomotivenfabrik GmbH i.I. [1) 7)]	Mosbach	90.00		EUR	306.00	– 641.00
Grundstücks-, Vermögens- und Verwaltungs-GbR 41, Leinfelden/Echterdingen [1) 11)]	Stuttgart	59.43		EUR	23,784.01	– 1,160.80
Haerder-Center Lübeck Verwaltungsgesellschaft mbH [1) 11)]	Stuttgart	100.00		EUR	29.72	– 0.79
Heurika Mobilien-Leasing GmbH [1) 3b) 11)]	Mannheim	100.00		EUR	– 158.25	– 307.28
HÜCO Circuit Technology GmbH i.I. [1) 7)]	Espelkamp	90.00		EUR	113.41	12.92
Hüco electronic GmbH i.L. [1) 4a) 6)]	Espelkamp	90.00		EUR	3,333.39	0.00
Ina Grundstücksverwaltungsgesellschaft mbH i. L. [1) 11)]	Mannheim	100.00		EUR	6.54	0.00
Iris Grundstücksverwaltungsgesellschaft mbH i. L. [1) 11)]	Mannheim	100.00		EUR	6.59	0.00
Karin Mobilien-Leasing GmbH i.L. [1) 11)]	Mannheim	100.00		EUR	884.31	0.00
KB Projekt GmbH [1) 11)]	Mainz	100.00		EUR	– 49.36	– 51.14
Kröpeliner-Tor-Center Rostock Verwaltungsgesellschaft mbH [1) 11)]	Berlin	100.00		EUR	20.11	1.62
KURIMA Grundstücksgesellschaft mbH & Co. KG [1) 11) 20)]	Stuttgart	1.00	84.00	EUR	– 2.81	– 0.91
LA electronic Holding GmbH [1) 11)]	Espelkamp	100.00		EUR	– 14,083.58	– 923.76
Laurus Grundstücksverwaltungsgesellschaft mbH [1) 11)]	Mannheim	100.00		EUR	1,604.96	– 16.66
LBBW Equity Partners GmbH & Co. KG i.L. [11)]	Stuttgart	100.00		EUR	1,687.23	– 48.11
LBBW Equity Partners Verwaltungs GmbH i.L. [11)]	Stuttgart	100.00		EUR	20.38	3.67
LBBW Gastro Event GmbH [4) 11)]	Stuttgart	100.00		EUR	130.00	0.00
LBBW Grundstücksverwaltungsgesellschaft mbH [4) 11)]	Stuttgart	100.00		EUR	25.99	0.00
LBBW GVZ Entwicklungsgesellschaft Leipzig mbH [11)]	Leipzig	100.00		EUR	2,795.15	272.33

Name	Place of business	Share of capital in %	Non-prop. voting rights in%	Currency	Equity EUR th.	Result EUR th.
LBBW Pensionsmanagement GmbH [4) 11)]	Stuttgart	100.00		EUR	25.00	0.00
LBBW REPRESENTAÇÃO LTDA. [2) 11)]	Itaim-Bibi/Sao Paulo, Brazil	100.00		BRL	152.66	27.84
LBBW (Schweiz) AG [11)]	Zurich, Switzerland	100.00		CHF	11,382.52	– 773.08
LBBW Verwaltungsgesellschaft Leipzig mbH [1) 11)]	Leipzig	100.00		EUR	32.85	– 5.01
LBBW Verwaltungsgesellschaft Leipzig mbH & Co. Parking KG [11)]	Leipzig	100.00		EUR	257.36	– 112.26
LBBW Verwaltungsgesellschaft Leipzig mbH & Co. REKIM KG [11)]	Leipzig	100.00		EUR	8,727.98	224.67
LEG Osiris 4 GmbH [1) 11)]	Stuttgart	100.00		EUR	33.73	– 0.85
LEG Osiris 5 GmbH [1) 11)]	Stuttgart	100.00		EUR	18.46	– 0.76
LEG Verwaltungsgesellschaft 4 mbH [1) 11)]	Stuttgart	100.00		EUR	28.50	0.07
LG Grundstücksanlagen-Gesellschaft mbH [11)]	Stuttgart	100.00		EUR	22.57	– 3.11
LGZ-Anlagen-Gesellschaft mit beschränkter Haftung [4) 11)]	Mainz	100.00		EUR	110.00	0.00
L-Immobilien GmbH [4) 11)]	Mannheim	100.00		EUR	180.95	0.00
LIVIDA MOLARIS Grundstücks-Vermietungsgesellschaft mbH & Co. Landesfunkhaus Erfurt KG [11)]	Erfurt	99.77	24.00	EUR	– 11,465.02	974.99
LIVIDA MOLARIS Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Polizei Nordhausen KG [11)]	Erfurt	100.00	15.00	EUR	– 6,084.56	422.69
LLC German Centre for Industry and Trade [11)]	Moscow, Russia	100.00		RUB	1,308.77	128.97
LUTEA MOLARIS Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Flöha KG [11)]	Berlin	100.00	15.00	EUR	– 4,639.78	628.81
Mannheim O4 Verwaltungsgesellschaft mbH [1) 11)]	Stuttgart	100.00		EUR	27.57	0.41
MDL Mitteldeutsche Leasing GmbH i.I. [1) 11)]	Leipzig	100.00		EUR	– 21,344.04	– 268.81
MLP Leasing GmbH & Co. KG i.L. [1) 11) 20)]	Mannheim	0.00	100.00	EUR	– 14.84	4.89
MLP Verwaltungs GmbH [1) 11)]	Mannheim	100.00		EUR	66.32	– 51.26
MLS GmbH & Co. KG [1) 11)]	Mannheim	100.00		EUR	9.44	5.94
MMV-Mittelrheinische Leasing Gesellschaft mit beschränkter Haftung [1) 4a) 11)]	Koblenz	100.00		EUR	26.00	0.00
Pollux Vierte Beteiligungsgesellschaft mbH [11)]	Stuttgart	100.00		EUR	4,818.04	– 150.47
Radon Verwaltungs-GmbH [11)]	Stuttgart	100.00		EUR	19,684.70	– 405.45
Rebstockpark 7.1 Komplementär GmbH [1)]	Stuttgart	100.00			n.a.	n.a.
Remseck Grundstücksverwaltungsgesellschaft mbH in Stuttgart [1) 4a) 11)]	Stuttgart	100.00		EUR	26.00	0.00
Rheinpromenade Mainz Komplementär GmbH [1) 11)]	Stuttgart	100.00		EUR	24.44	– 0.56
Rhin-Neckar S.A. [11)]	Munsbach,Luxembourg	100.00		EUR	171.22	– 21.22
Sachsen LB FIRKO Betreuungs GmbH & Co. Windpark Reichenbach KG [2) 11)]	Leipzig	96.54	97.24	EUR	1,735.05	539.72
Sachsen V.C. GmbH & Co. KG [1) 11)]	Leipzig	75.19		EUR	1,368.44	– 285.01
Sachsen V.C. Verwaltungsgesellschaft mbH [1) 11)]	Leipzig	100.00		EUR	13.98	– 1.98
SachsenFonds International Equity Holding I GmbH [1) 11)]	Aschheim-Dornach	100.00		EUR	3,633.08	684.25
SachsenFonds International Equity I GmbH & Co. KG [1) 11)]	Leipzig	96.15		EUR	7 673.14	547.71
SBF Sächsische Beteiligungsfonds GmbH [1) 11)]	Leipzig	100.00		EUR	293.46	– 11.21
Schmidt W & K Leasing GmbH & Co. KG i.L. [1) 11)]	Mannheim	100.00		EUR	– 37.29	0.00
SDD Holding GmbH [1) 9)]	Stuttgart	100.00		EUR	– 3,212.07	– 14.79
SDT- Stanz und Dämmtechnik GmbH [1) 4a) 7)]	Berga	100.00		EUR	138.40	0.00
SKH Beteiligungs Holding GmbH [11)]	Stuttgart	100.00		EUR	2,331.84	– 160.32
SL Bayern Verwaltungs GmbH [1) 11)]	Mannheim	100.00		EUR	1,026.35	11.84
SL Bremen Verwaltungs-GmbH [1) 11)]	Mannheim	100.00		EUR	750.72	276.14
SL BW Verwaltungs GmbH [1) 11)]	Mannheim	100.00		EUR	607.73	19.69
SL Düsseldorf Verwaltungs GmbH [1) 11)]	Mannheim	100.00		EUR	574.64	6.42
SL FINANCIAL MEXICO, S.A. DE C.V., SOFOM, E. N. R. [1) 11)]	Col. Lomas de Santa Fe, Mexico	100.00		MXN	395.01	44.86
SL Financial Services Corporation [1) 11)]	Norwalk, USA	100.00		USD	1,170.52	608.20
SL Mobilien-Leasing GmbH & Co. Hafis KG [1) 11) 20)]	Mannheim	0.00	51.00	EUR	2,021.46	– 4.98
SL Nordlease GmbH & Co KG [1) 11) 20)]	Mannheim	0.00	60.00	EUR	– 2,195.19	303.94
SL Operating Services GmbH i.L. [1) 11)]	Mannheim	100.00		EUR	80.41	0.00
SL RheinMainSaar Verwaltungs GmbH [1) 11)]	Mannheim	100.00		EUR	512.35	– 2.52
SL Schleswig-Holstein Verwaltungs GmbH [1) 11)]	Mannheim	100.00		EUR	122.70	– 3.71
SL Ventus GmbH & Co. KG [1) 11)]	Mannheim	100.00		EUR	148.88	302.32

Name	Place of business	Share of capital in %	Non-prop. voting rights in%	Currency	Equity EUR th.	Result EUR th.
SLKS GmbH & Co. KG [1) 11)]	Stuttgart	100.00		EUR	3,580.25	810.92
Städtische Pfandleihanstalt Stuttgart Aktiengesellschaft [11)]	Stuttgart	100.00		EUR	6,878.79	468.08
Steelcase Leasing GmbH & Co KG [1) 11)]	Mannheim	100.00		EUR	235.33	– 6.15
Stuttgarter Aufbau Bau- und Verwaltungs-Gesellschaft mbH [4) 11)]	Stuttgart	100.00		EUR	153.39	0.00
Süd Mobilien-Leasing GmbH [1) 4a) 11)]	Stuttgart	100.00		EUR	28.28	0.00
Süddeutsche Allgemeine Finanz- und Wirtschaftsgesellschaft mit beschränkter Haftung [1) 4a) 11)]	Mannheim	100.00		EUR	511.29	0.00
SüdImmobilien GmbH [4) 11)]	Mannheim	100.00		EUR	2,574.87	0.00
SüdLeasing d.o.o. Zagreb i. L. [1) 11)]	Zagreb, Croatia	100.00		HRK	– 88.12	166.73
SüdLeasing Finance-Holding GmbH [1) 11)]	Stuttgart	100.00		EUR	180.06	– 9.30
SüdLeasing Kft. [1) 11)]	Szekszard, Hungary	100.00		HUF	371.26	– 13.74
SüdLeasing s.r.o. (Prague) [1) 11)]	Prague 1, Czech Republic	100.00		CZK	744.28	– 152.50
SüdLeasing Suisse AG [1)]	Unterengstringen, Switzerland	100.00		CHF	7,692.36	70.87
SÜDRENTING ESPANA, S.A. [1) 11)]	Barcelona, Spain	100.00		EUR	18,485.19	– 838.88
SuedLeasing Romania IFN S.A. i. L. [1) 11)]	Bucharest, Romania	100.00		RON	819.42	– 14.44
Technologiegründerfonds Sachsen Verwaltung GmbH [1) 11)]	Leipzig	100.00		EUR	25.12	2.81
Thömen Leasing GmbH & Co. KG i.L. [1) 11) 20)]	Mannheim	0.00	75.00	EUR	1,076.34	– 4.68
Viola Grundstücksverwaltungs-GmbH & Co. Verpachtungs KG [11)]	Pullach	99.41	50.00	EUR	4,090.79	722.49
Wachstumsfonds Mittelstand Sachsen Verwaltung GmbH [1) 11)]	Leipzig	100.00		EUR	32.58	2.55
WM Mobilien-Leasing GmbH & Co. KG [1) 11) 20)]	Mannheim	0.00	75.00	EUR	800.79	868.86
Yankee Properties II LLC [20)]	Wilmington, New Castle County, USA	0.00	100.00		n.a.	n.a.
Yankee Properties LLC [11)]	Wilmington, New Castle County, USA	100.00		USD	1,251.37	14.86
YOZMA III GmbH & Co. KG [1) 11)]	Munich	77.14		USD	0.00	– 99.96
Zenon Mobilien-Leasing GmbH [1) 11)]	Mannheim	100.00		EUR	441.26	42.41
Zweite Karl-Scharnagl-Ring Immobilien Verwaltung GmbH [1) 11)]	Munich	100.00		EUR	34.72	1.51
b. Subsidiaries not included (authority over contractual agreements) [22)]						
Georges Quay Funding I Limited [11) 20)]	Dublin 1, Ireland			EUR	9.63	0.01
HG ABS Fund plc [13) 20)]	Dublin 1, Ireland	100.00	0.00	EUR	0.00	49,608.78
Hirschgarten GÜ GmbH & Co. KG [1) 11)]	Oberhaching	45.00	50.00	EUR	131.24	– 11.20
Kopal Grundstücksverwaltungsgesellschaft mbH & Co. Objekt Löhr's Carré OHG [11)]	Mainz	94.00	24.00	EUR	– 10,952.17	802.11
LAAM-Fonds I (LAAM Subtrust I) [11) 20)]	George Town, Cayman Islands	100.00	0.00	EUR	77,458.92	– 7,339.47
LAAM-Fonds II [11) 20)]	George Town, Cayman Islands	100.00	0.00	EUR	81,725.05	– 5,577.01
LAAM-Fonds XI [11) 20)]	George Town, Cayman Islands	100.00	0.00	EUR	48,745.58	1,518.83
LBBW Covered Bonds Euro Offensiv [12)]	Stuttgart	24.01	0.00	EUR	29,246.74	673.84
LBBW Covered Bonds Euro Select [12)]	Stuttgart	100.00	0.00	EUR	20,244.65	463.80
LBBW Devisen 1	Stuttgart	61.81	0.00		n.a.	n.a.
MALC Fin Fifteen Limited [7) 20)]	Nassau, Bahamas			USD	– 12,296.81	– 7,365.45
MALC Lease Fifteen Limited [1)]	Nassau, Bahamas	100.00			n.a.	n.a.
M-Korb Funding No.1 Ltd. [11) 20)]	Dublin 2, Ireland			EUR	– 7,911.22	859.39
Palmsche Park GbR Esslingen [1) 11)]	Stuttgart	94.07	50.00	EUR	– 851.93	– 851.93
Platino S.A. [11) 20)]	Luxembourg, Luxembourg			EUR	– 15.34	– 65.31
Weinberg Capital LLC [20)]	Wilmington, New Castle County, USA				n.a.	n.a.
2. Joint ventures not accounted for using the equity method						
Aaron Grundstücksverwaltungsgesellschaft mbH i.L. [1) 9)]	Oberursel	50.00		EUR	– 2,064.22	– 12.57
addfinity testa GmbH [1) 11) 20)]	Hartha	11.78		EUR	3,362.94	843.11
Bietigheimer Wohnungsprivatisierungsgesellschaft mbH [11)]	Bietigheim-Bissingen	50.00		EUR	13,823.78	1,854.71
Dresden Fonds GmbH [1) 11)]	Dresden	50.05		EUR	2,016.89	4,421.06
Egerland Lease GmbH & Co. KG [1) 11) 20)]	Mannheim	0.00	50.00	EUR	2,139.86	1,300.03
German Centre for Industry and Trade India Holding-GmbH [1) 11)]	Munich	50.00		EUR	904.43	– 596.93
LBBW Immobilien Verwaltung GmbH [1) 11)]	Stuttgart	50.00		EUR	45.57	4.86
Residenzpost Planen + Bauen GmbH & Co. KG [1) 11)]	Munich	50.00		EUR	– 6.83	– 2.80
SHS Gesellschaft für Beteiligungen mbH & Co. Mittelstand KG [1) 11)]	Tübingen	75.02		EUR	4,511.20	0.71
SHS Venture Capital GmbH & Co. KG [1) 11)]	Tübingen	95.45		EUR	883.00	– 65.00

Name	Place of business	Share of capital in %	Non-prop. voting rights in%	Currency	Equity EUR th.	Result EUR th.
3. Associates not accounted for using the equity method						
B+S Card Service GmbH [16)]	Frankfurt am Main	25.10		EUR	19,249.39	2,738.49
Bubbles and Beyond GmbH [1) 11)]	Leipzig	26.00		EUR	2,304.00	– 686.00
Cäcilienpark am Neckar GbR [1) 11)]	Heilbronn	33.33		EUR	668.77	68.88
CheckMobile GmbH - The Process Solution Company [1) 11)]	Stuttgart	41.13		EUR	– 852.80	– 70.95
Cortex Biophysik GmbH [1) 11)]	Leipzig	47.70		EUR	– 513.76	118.99
Doughty Hanson & Co. Funds III Partnership No.15 [1) 11)]	London, Great Britain	21.74		USD	16,612.55	– 12.92
DUO PLAST Holding GmbH [1) 4a) 11)]	Lauterbach	47.43		EUR	– 22.91	– 48.03
FEAG GmbH [1) 11)]	Forchheim	20.00		EUR	6,767.63	– 520.31
Global Teleport GmbH i.I. [1) 9)]	Leipzig	21.42		EUR	– 2,274.93	n.a.
Grundstücks-, Vermögens- und Verwaltungs- GbR 33, Leinfelden-Echterdingen/Stuttgart-Möhringen [1) 11)]	Stuttgart	24.74		EUR	51,138.31	– 1,379.04
Grundstücks-, Vermögens- und Verwaltungs- GbR 34, Wolfstor 2, Esslingen [1) 11)]	Stuttgart	28.38		EUR	10,119.87	390.65
Grundstücks-, Vermögens- und Verwaltungs- GbR 36, Stuttgart/Lein-felden-Echterdingen [1) 11)]	Stuttgart	26.31		EUR	32,369.68	– 189.72
Grundstücks-, Vermögens- und Verwaltungs- GbR 38, Stuttgart-Filderstadt [1) 11)]	Stuttgart	22.83		EUR	27,363.83	– 295.59
Grundstücks-, Vermögens- und Verwaltungs- GbR 39, Stuttgart-Fellbach [1) 11)]	Stuttgart	40.94		EUR	26,829.72	– 400.40
Grundstücks-, Vermögens- und Verwaltungs-GbR 40, Ludwigsburg »Am Schloßpark« [1) 11)]	Stuttgart	43.98		EUR	26,554.98	244.19
HAP Holding GmbH [1)]	Dresden	50.00			n.a.	n.a.
INULA Grundstücks-Verwaltungsgesellschaft mbH & Co. KG [11)]	Grünwald	80.00	18.25	EUR	– 31,100.36	3,212.04
Kiesel Finance GmbH & Co. KG [1) 11) 20)]	Baienfurt	0.00	75.00	EUR	871.87	518.95
Kreditgarantiegemeinschaft in Baden-Württemberg Verwaltungs-GmbH [11)]	Stuttgart	20.00		EUR	1,022.58	0.00
M Cap Finance Deutsche Mezzanine Fonds Zweite GmbH & Co. KG [1) 11)]	Leipzig	49.75		EUR	19,524.84	– 2,651.44
Mittelständische Beteiligungsgesellschaft Sachsen mbH [11)]	Dresden	25.27		EUR	37,489.57	1,926.39
MOLWANKUM Vermietungsgesellschaft mbH & Co. Objekt Landkreis Hildburghausen KG [11)]	Düsseldorf	94.00	49.00	EUR	– 1,178.15	426.67
Piller Entgrattechnik GmbH [1) 11)]	Ditzingen	35.00		EUR	5,228.20	1,620.69
Prime 2006– 1 Funding L.P. 10) 21)	St. Helier, Jersey	47.50		EUR	0.00	9,145.68
Rhenus Mobilien GmbH & Co KG [1) 11) 20)]	Holzwickede	0.00	51.00	EUR	2,150.00	1,916.02
Rhenus Mobilien II GmbH & Co. KG [1) 11) 20)]	Holzwickede	0.00	51.00	EUR	2,440.79	2,155.76
RESprotect GmbH [1) 9)]	Dresden	32.80		EUR	– 1,307.98	– 125.33
Rhein-Neckar Wohnwerte Beteiligungs-Unternehmergesellschaft (haftungsbeschränkt) [1) 11)]	Heidelberg	33.33		EUR	– 1.78	– 0.71
Rhein-Neckar Wohnwerte Projekt-Unternehmergesellschaft (haftungsbeschränkt) & Co. KG [1) 11)]	Heidelberg	33.33		EUR	– 811.73	– 144.09
Ritterwand Metall-Systembau Beteiligungs GmbH [1) 11)]	Nufringen	49.97		EUR	8,022.89	1,056.37
SachsenFonds Immobilien GmbH [1) 11)]	Aschheim-Dornach	49.00		EUR	55.03	– 3.00
Siedlungswerk GmbH Wohnungs- und Städtebau [11)]	Stuttgart	25.00		EUR	210,181.48	9,840.02
SL Mobilien-Leasing GmbH & Co. ENERCON KG [1) 11) 20)]	Mannheim	0.00	80.00	EUR	35,878.29	2,649.57
SLB Leasing-Fonds GmbH & Co. Portos KG i.L. [1) 11)]	Pöcking	35.12		EUR	331.50	– 14.70
SLN Maschinen Leasing GmbH & Co. OHG [1) 11) 20)]	Stuttgart	0.00	75.00	EUR	– 557.72	– 196.05
SLP Mobilien-Leasing GmbH & Co. OHG [1) 11) 20)]	Mannheim	0.00	75.00	EUR	345.93	75.86
Stollmann Entwicklungs- und Vertriebs GmbH [1) 11)]	Hamburg-Bahrenfeld	29.00		EUR	1,028.46	– 786.82
svt Holding GmbH [1) 11)]	Seevetal	25.00	27.78	EUR	11,415.25	1,608.73
TC Objekt Bonn Beteiligungs-GmbH [1) 7)]	Soest	25.00		EUR	22.75	– 2.25
TC Objekt Darmstadt Beteiligungs-GmbH [1) 7)]	Soest	25.00		EUR	22.87	– 2.13
TC Objekt Münster Nord Beteiligungs-GmbH [1) 7)]	Soest	25.00		EUR	22.63	– 2.37
TC Objekt Münster Süd Beteiligungs-GmbH [1) 7)]	Soest	25.00		EUR	22.55	– 2.45
Technologiegründerfonds Sachsen Holding GmbH & Co. KG [1) 11) 20) 21)]	Leipzig	0.00	100.00	EUR	0.00	0.00
Technologiegründerfonds Sachsen Initiatoren GmbH & Co. KG [1) 11)]	Leipzig	25.00		EUR	2.05	– 0.19

Name	Place of business	Share of capital in %	Non-prop. voting rights in%	Currency	Equity EUR th.	Result EUR th.
Technologiegründerfonds Sachsen Management GmbH & Co. KG [1) 11)]	Leipzig	25.00		EUR	4.00	723.75
Technologiegründerfonds Sachsen Seed GmbH & Co. KG [1) 11) 20)]	Leipzig	3.34		EUR	4,151.76	– 3,605.74
Technologiegründerfonds Sachsen Start up GmbH & Co. KG [1) 11) 20)]	Leipzig	10.83		EUR	12,839.26	– 1,524.27
Wachstumsfonds Mittelstand Sachsen GmbH & Co. KG [1) 11)]	Leipzig	27.55		EUR	34,869.21	427.98
Wachstumsfonds Mittelstand Sachsen Initiatoren GmbH & Co. KG [1) 11)]	Leipzig	25.00		EUR	0.95	– 0.19
Wachstumsfonds Mittelstand Sachsen Management GmbH & Co. KG [1) 11)]	Leipzig	25.00		EUR	4.00	1,522.75
Wachstumsfonds Mittelstand Sachsen Plus GmbH & Co. KG [1) 11) 20)]	Leipzig	12.72	13.72	EUR	3,047.25	– 2,046.90
Wolff & Müller Wohnbau GmbH & Co. Objekt Fürth KG [11) 20)]	Pullach i. Isartal	5.00	25.00	EUR	– 1,353.10	120.50
yourTime Solutions GmbH i.L. [1) 11)]	Potsdam	20.11		EUR	0.00	– 1,317.00
III. Investments with a capital share of 20% and more						
Bürgschaftsbank Sachsen GmbH [11)]	Dresden	27.96	18.44	EUR	34,271.91	1,440.31
Candover 2001 GmbH & Co. KG i. L. [1) 15)]	Frankfurt am Main	25.64		EUR	680.97	2,062.14
GLB GmbH & Co. OHG [11)]	Frankfurt am Main	30.05		EUR	4,857.38	– 293.97
GLB-Verwaltungs-GmbH [11)]	Frankfurt am Main	30.00		EUR	44.85	2.73
Helmut Fischer GmbH i.L. [1)]	Talheim	48.35	0.00		n.a.	n.a.
Humboldt Multi Invest B S.C.A., SICAV-FIS [2) 17)]	Luxembourg, Luxembourg	99.99		EUR	6,928.35	– 165.43
Korin Grundstücksgesellschaft mbH & Co. Projekt 19 KG i.L. [1) 11)]	Grünwald	80.00	19.00	EUR	145.05	– 16.95
Paramount Group Real Estate Fund II, L.P. [1) 11)]	Wilmington, New Castle County, USA	29.13	28.29	USD	115,969.85	4,307.96
IV. Investments in major corporations with a share of voting rights of at least 5%						
Deutscher Sparkassen Verlag Gesellschaft mit beschränkter Haftung [11)]	Stuttgart	8.11		EUR	122,293.52	12,331.69
HSBC Trinkaus & Burkhardt AG [11)]	Düsseldorf	18.66		EUR	1,293,196.50	175,269.23
Imagelinx plc [1) 7)]	Kirkby-in-Ashfield, Great Britain	7.46		GBP	9,733.32	– 528.23
VITA 34 AG [1) 11)]	Leipzig	6.65		EUR	10,099.52	1,422.86

1) Held indirectly.
2) Including shares held indirectly.
3) A letter of comfort exists.
3a) A letter of comfort exists as long as LBBW holds 100% of shares.
3b) A letter of comfort exists on the part of a Group subsidiary.
4) A profit transfer and/or control 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 at 31 December 2013 in accordance with IFRS.
6) Data available only as at 31 December 2010.
7) Data available only as at 31 December 2011.
8) Data available only as at 31 July 2012.
9) Data available only as at 31 December 2012.
10) Data available only as at 30 September 2013.
11) Data available only as at 31 December 2013.
12) Data available only as at 28 February 2014.
13) Data available only as at 31 March 2014.
14) Data available only as at 30 April 2014.
15) Data available only as at 13 June 2014.
16) Data available only as at 30 September 2014.
17) Data available only as at 31 July 2014.
18) Data available only as at 31 July 2013.
19) The capital and voting shares is limited to 40% due to the UBG status.
20) No list of shareholdings within the meaning of section 285 no. 11 HGB.
21) Is a structured unit in accordance with IFRS 12 at the same time.
22) Information on three companies was not provided due to banking secrecy

79. Employees.

On average, the number of employees in the LBBW Group is as follows:

	2014			2013		
	Male	Female	Total	Male	Female	Total
Full-time	5,065	3,465	8,530	5,205	3,618	8,823
Part-time	203	2,451	2,654	209	2,408	2,617
Trainees [1)]	263	193	456	274	192	466
Total	**5,531**	**6,109**	**11,640**	**5,688**	**6,218**	**11,906**

1) Including students at universities of cooperative education

80. Executive and supervisory bodies and positions held.

Members of the Board of Managing Directors and supervisory bodies.

Board of Managing Directors.

Chairman.

HANS-JÖRG VETTER

Deputy Chairman.

MICHAEL HORN

Members.

KARL MANFRED LOCHNER

INGO MANDT

DR. MARTIN SETZER
as of 1 Jan. 2014

ALEXANDER FREIHERR VON USLAR-GLEICHEN
as of 1 October 2014

VOLKER WIRTH
as of 1 Jan. 2014

Supervisory Board.

Chairman.

HANS WAGENER
Auditor, tax consultant

Deputy Chairman.

DR. NILS SCHMID MDL
Deputy Minister-President,
Minister of Finance and Economics of the State of Baden-Württemberg

Members.

HANS BAUER
Employee Representative of Landesbank Baden-Württemberg

CARSTEN CLAUS
Chairman of the Board of Managing Directors of Kreissparkasse Böblingen

HARALD COBLENZ
Employee Representative of Landesbank Baden-Württemberg

WOLFGANG DIETZ
Lord Mayor of the town of Weil am Rhein

WALTER FRÖSCHLE
Employee Representative of Landesbank Baden-Württemberg

HELMUT HIMMELSBACH
Retired Lord Mayor

PROF. DR. SC. TECHN. DIETER HUNDT
until 9 May 2014
Chairman of the Supervisory Board of Allgaier Werke GmbH

JENS JUNGBAUER
Employee Representative of Landesbank Baden-Württemberg

BETTINA KIES-HARTMANN
Employee Representative of Landesbank Baden-Württemberg

FRITZ KUHN
Lord Mayor of the State Capital Stuttgart

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

GÜNTHER NOLLERT
Employee Representative of Landesbank Baden-Württemberg

DR. FRITZ OESTERLE
Attorney at law, law firm Oesterle

MARTIN PETERS
Managing Partner of Eberspächer Group

NORBERT H. QUACK
Attorney at law, notary, law firm Quack Gutterer & Partner

CLAUS SCHMIEDEL MDL
Chairman of the SPD Parliamentary Group in the State Parliament of Baden-Württemberg

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

DR.-ING. HANS-JOCHEM STEIM
Chairman of the Board of Directors of Hugo Kern und Liebers GmbH & Co. KG

DR. JUTTA STUIBLE-TREDER
from 9 May 2014
Managing Partner of EversheimStuible Treuberater GmbH

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	2014	2013	2014	2013
Remuneration				
Salaries, remuneration and short-term benefits	6.1	4.9	1.0	1.0
Post-employment benefits (total obligations from defined benefit obligations)	14.2	9.8	0.0	0.0
Remuneration for former members and their dependents				
Salaries, remuneration and short-term benefits	11.4	11.1	0.0	0.0
Post-employment benefits (total obligations from defined benefit obligations)	159.6	145.8	0.0	0.0

As at 31 December 2014, loans granted to members of the Board of Managing Directors and members of the Supervisory Board amounted to EUR 2 million (previous year: EUR 3 million), accounted for mainly by the Supervisory Board. No advances were made to members of the Board of Managing Directors and members of the Supervisory Board in 2014 (previous year: EUR 2,000).

In addition, as in the previous year a guarantee in the amount of EUR 800,000 is currently in place for a member of the Supervisory Board. A guarantee commitment of EUR 13,000 remains in place for a member of the Board of Managing Directors.

The loans were extended with an interest rate of between 2.06% and 10.61% and have a remaining term extending from a few months to 32 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:

Company	Position	Incumbent
AKA Ausfuhrkredit GmbH, Frankfurt am Main	Member of the Supervisory Board Deputy Member of the Supervisory Board	Joachim Landgraf Elvira Bergmann
B+S Card Service GmbH, Frankfurt am Main	Deputy Chairman of the Supervisory Board	Michael Horn
Bietigheimer Wohnbau GmbH, Bietigheim-Bissingen	Member of the Supervisory Board	Attila Tür
Boerse Stuttgart AG, Stuttgart	Member of the Supervisory Board	Ingo Mandt
Bürgschaftsbank Baden-Württemberg GmbH, Stuttgart	Member of the Supervisory Board	Jürgen Kugler
Bürgschaftsbank Sachsen GmbH, Dresden	Member of the Board of Directors	Oliver Fern since 21 January 2014
cellent AG, Stuttgart	Chairman of the Supervisory Board Deputy Chairman of the Supervisory Board Deputy Chairman of the Supervisory Board	Dr. Martin Setzer Eike Wahl Frank Hammann
Deutscher Sparkassenverlag GmbH, Stuttgart	Member of the Supervisory Board	Dr. Martin Setzer since 27 June 2014
Euwax AG, Stuttgart	Member of the Supervisory Board	Ingo Mandt
Grieshaber Logistik AG, Weingarten	Member of the Supervisory Board	Michael Horn
HERRENKNECHT Aktiengesellschaft, Schwanau	Chairman of the Supervisory Board	Hans-Jörg Vetter
HSBC Trinkaus & Burkhardt AG, Düsseldorf	Member of the Supervisory Board	Hans-Jörg Vetter
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	Hans-Jörg Vetter Ingo Mandt since 06 March 2014 Helmut Dohmen Norwin Graf Leutrum von Ertingen
LBBW (Schweiz) AG, Zurich	Chairman of the Board of Directors	Dr. Peter M. Haid
LHI Leasing GmbH, Pullach	Chairman of the Supervisory Board Member of the Supervisory Board Member of the Supervisory Board	Hans-Jörg Vetter Ingo Mandt Karl Manfred Lochner
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	Member of the Supervisory Board	Dr. Georg Hengstberger
Schlossgartenbau AG, Stuttgart	Deputy Chairman of the Supervisory Board	Dieter Hildebrand
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	Member of the 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	Member of the Supervisory Board	Michael Horn
VPV Lebensversicherungs-Aktiengesellschaft, Stuttgart	Member of the Supervisory Board	Claudia Diem

1) Institution within the institution.

Further information.

Responsibility statement.

To the best of our knowledge, and in accordance with the applicable financial reporting framework, the consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the Group, and the combined management report gives a true and fair view of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected future development of the Group.

Stuttgart, Karlsruhe, Mannheim and Mainz, 5 March 2015

The Board of Managing Directors

HANS-JÖRG VETTER
Chairman

MICHAEL HORN
Deputy Chairman

KARL MANFRED LOCHNER

INGO MANDT

DR. MARTIN SETZER

ALEXANDER FREIHERR VON USLAR-GLEICHEN

VOLKER WIRTH

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 2014. 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 [»Handelsgesetzbuch«:»German Commercial Code«] 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 [»Handelsgesetzbuch«:»German Commercial Code«] 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 and as a whole provides a suitable view of the Group’s position and suitably presents the opportunities and risks of future development.«

Stuttgart, 12 March 2015

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.

HANS WAGENER
Auditor, tax consultant, Oberursel

Members.

WILLEM G. VAN AGTMAEL
Honorary Consul of the Kingdom of the Netherlands, Managing Partner of catalpa GmbH, Stuttgart

THOMAS ARTMANN
Karlsruhe

DR. STEFAN ASENKERSCHBAUMER
Deputy Chairman of the Board of Management of Robert Bosch GmbH, Gerlingen

HELMUT AURENZ
Honorary Consul of Estonia, Senator h.c., Isny im Allgäu

BARBARA BAUER
Member of the Board of Evangelische Landeskirche in Baden, Karlsruhe

HUBERTUS VON BAUMBACH
Member of the Board of Managing Directors of Boehringer Ingelheim GmbH, Ingelheim am Rhein

ALBERT BERNER
Chairman of the Supervisory Board of Berner Gruppe, Künzelsau

DIETMAR BICHLER
Chairman of the Board of Managing Directors of Bertrandt AG, Ehningen

DR. DR. SASKIA BISKUP
as of 16 May 2014
Managing Director of CeGaT GmbH, Tübingen

DR. CHRISTOF BOSCH
Königsdorf

DR. WOLFGANG BRUDER
as of 16 May 2014
Senator E. h., Chairman of the Board of Managing Directors (retired), Offenburg

CATHARINA CLAY
as of 16 May 2014
Deputy Regional Chairman of IG BCE Industriegewerkschaft Bergbau, Chemie, Energie, Landesbezirk Baden-Württemberg, Stuttgart

DR. ANTJE VON DEWITZ
as of 16 May 2014
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 + Co. KG, Eppingen

RALF 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 Technische Kunststoffe, Nufringen

DR. ALEXANDER ERDLAND
Chairman of the Board of Managing Directors of Wüstenrot & Württembergische AG, Stuttgart

DR. MARKUS FAULHABER
Chairman of the Board of Managing Directors of Allianz Lebens-versicherungs-AG, Stuttgart

PROF. E. H. KLAUS FISCHER
Senator E. h. mult.
Owner and Chairman of the Board of Management of Unternehmensgruppe fischer, fischer holding GmbH & Co. KG, Waldachtal

DR. WOLFGANG FISCHER
Member of the Boards 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. CLEMENS FUEST
as of 16 May 2014
President of Zentrum für Europäische Wirtschaftsforschung GmbH, Mannheim

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. Elektro-Gerätebau 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 Baden-Württemberg, 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
Deputy Chairman of the Board of Management of MANN + HUMMEL Holding GmbH, Ludwigsburg

HARTMUT JENNER
Chairman of the Board of Management of Alfred Kärcher GmbH & Co. KG Reinigungssysteme, Winnenden

PROF. DR. HEINZ K. JUNKER
Chairman of the Board of Management of MAHLE GmbH, Stuttgart

DANIEL F. JUST
Chairman of the Board of Managing Directors of Bayerische Versorgungskammer, München

DIRK KALIEBE
Member of the Board of Managing Directors of Heidelberger Druckmaschinen AG, Heidelberg

JOACHIM KALTMAIER
Member of the Central Managing Board of 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
Managing Director of Witzenmann GmbH, Pforzheim

PROF. DR. RENATE KÖCHER
Managing Director of the Institut für Demoskopie Allensbach Gesellschaft zum Studium der öffentlichen Meinung mbH, Allensbach am Bodensee

STEFAN KÖLBL
Chairman of the Boards of Managing Directors of DEKRA e.V./DEKRA AG, Stuttgart

THOMAS KÖLBL
Member of the Board of Managing Directors of Südzucker AG Mannheim/ Ochsenfurt, Mannheim

ANDREAS KOHM
Partner of Versandhaus Klingel K-Mail-Order GmbH & Co. KG, Pforzheim

ALEXANDER KOTZ
as of 6 October 2014
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
Managing Partner 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
Member of the Supervisory Board of Rethmann AG & 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
Member of the Board of Managing Directors of Festo AG & Co. KG, Esslingen

JOACHIM MÜLLER
Member of the Board of Managing Directors of Bilfinger SE, Mannheim

DR. MICHAEL MÜNZING
Managing Partner of Münzing Chemie GmbH, Heilbronn

KLAUS MUTSCHLER
Mutschler Holding AG, Zürich

HEINZ OHNMACHT
Chairman of the Board of Managing Directors of Badischer Gemeinde-Versicherungs-Verband, BGV-Versicherung AG, Badische Allgemeine Versicherung AG, Karlsruhe

CHRISTOPH OZASEK
as of 6 October 2014
City Councilor, Stuttgart

DR. WOLFGANG PALM
Managing Partner of Papierfabrik Palm GmbH & Co. KG, Aalen

MARTIN PETERS
Managing Partner of Eberspächer Gruppe, 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
Member of the Board of Managing Directors 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 of Kommunaler Versorgungs-verband Baden-Württemberg, Karlsruhe

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
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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.

Bail-in ratio.
Liabilities available to a bank to absorb losses in the event of a crisis. The ratio has been introduced by the supervisory authorities in an effort to hold liable first of all the shareholders and creditors of an institution.

Basel III.
Extensive banking regulatory package of the Basel Committee on Banking Supervision. The requirements with a focus on equity and liquidity were launched in 2010 and are based on the experience gained during the financial market crisis. European implementation of Basel III is performed via the CRR/CRD IV.

Common equity Tier 1 (CET 1) ratio.
A bank's CET 1 consists mainly of paid-in capital instruments and open reserves less regulatory filters and extensive capital deductions. If this figure is placed in relation to risk weighted assets, it produces the CET 1 ratio.

Comprehensive assessment.
Extensive examination of a total of 130 European banks in preparation for the Single Supervisory Mechanism (SSM). The assessment consisted of a risk assessment, an asset quality review (AQR) and a stress test. A core element of the SSM is the assumption of direct supervision of major institutions in the euro area by the ECB.

Corporate governance.
An expression meaning transparent and good corporate governance and the monitoring thereof. A collection of the main provisions is included in the German Corporate Governance Code.

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, with an effect on the German Banking Act (Kreditwesengesetz). It contains provisions that are addressed to the national supervisory authorities. Transitional provisions will apply until the full implementation of Basel III in 2019.

Dual bank regulation.
The separation of high-risk trading activities and the regular deposit-taking business is designed to prevent the use of customers' savings deposits to finance and cover the losses of risky trading activities. While the German Ring-Fencing Act (Trennbankengesetz), which has already been adopted, will have to be adhered to from July 2016 and parts of the US Volcker Rule will need to be observed from July 2015, the legislative process at EU level is ongoing.

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.

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.

Hybrid capital.
Capital that belongs to debt capital but has equity characteristics. 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, adherence to the applicable legal provisions and the protection of bank assets.

Leverage ratio.
Non-risk-based debt ratio of a bank. The Basel Committee introduced 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 (MaSan). A recovery plan must provide options for action in order to increase the financial institution's resilience in a potential crisis case.

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.
Risks (credit and market price risks together with operational risks) are weighted on the basis of supervisory law requirements and on their volume. The better a borrower's rating, the lower the underlying risk weight.

Steering instruments.
The term steering instruments describes the concerted cooperation between Finance, Risk Controlling and Financial Controlling within LBBW.

Stress test.
Stress tests aim to uncover potential weaknesses of institutions in the occurrence of extreme events. They are designed to test the robustness of a bank or of the entire financial system so as to derive potential action measures.

Total ratio.
Capital ratio which sets an institution's equity in relation to risk weighted assets. This means that, unlike the common equity Tier 1 ratio, additional and supplementary capital are also included in the calculation.

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 an all-purpose and merchant bank, which – together with its regional customer banks BW-Bank, Rheinland-Pfalz Bank and Sachsen Bank – offers all types of business typical of a modern bank in some 200 branches and offices throughout Germany.

In terms of its strategy LBBW focuses on its customer-oriented core business with growth prospects, especially in the regions of Baden-Württemberg, Rhineland Palatinate and Saxony and the neighboring regions. Here business activities center on corporate and private customers as well as savings banks there. These are complemented by efficient real estate financing and capital markets products, including those aimed at institutional customers. Foreign business to support customers rounds off the business model.

As the umbrella of the LBBW Group, LBBW (Bank) acts as the controlling body within the Group. Furthermore, business with large customers with supraregional or international operations, real estate financing, the capital markets business and the role of central bank for the savings banks in Baden-Württemberg, Rhineland-Palatinate and Saxony are pooled here.

Baden-Württembergische Bank (BW-Bank).

BW-Bank's portfolio includes corporate and private customers with a focus on the core market of Baden-Württemberg;. The first mentioned are taken care of in Bavaria as well. BW-Bank concentrates on SMEs and high net-worth private customers. Moreover, wealth management services are offered to high net-worth customers.

Within the state capital of Stuttgart, BW-Bank fulfils the role of a municipal savings bank.

LBBW Rheinland-Pfalz Bank.

Rheinland-Pfalz Bank focuses its operations particularly on the SME business in Rhineland-Palatinate, North-Rhine Westphalia and Hesse. Moreover, it serves high net-worth private customers in its core market of Rhineland-Palatinate and neighboring regions.

LBBW Sachsen Bank.

Under the umbrella of Sachsen Bank, the LBBW Group assists its corporate SME customers and the high net-worth private customer business in Saxony and neighboring economic areas.

Further group companies.

Subsidiaries specializing in specific areas of business such as leasing, factoring, asset management, real estate or equity finance diversify and amplify LBBW's portfolio of services.

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