

Reliable performance. Disclosure report of Landesbank Baden-Württemberg.

In accordance with CRR/CRD IV as at 30 June 2016.

1 Fundamentals.

Under the requirements set out in Part 8 of the CRR (Capital Requirements Regulation – (EU) No. 575/2013) and in CRD IV (Capital Requirements Directive IV – 2013/36/EU), banks are required to prepare a disclosure report once a year.

In accordance with the European banking regulatory requirements, institutions whose consolidated risk exposure as defined in Article 429 CRR exceeds EUR 200 billion must prepare a quarterly disclosure report pursuant to the guidelines of the European Banking Authority (EBA/GL2014/14 of 23 December 2014).

In its capacity as the parent company, LBBW complies with its duty to prepare a disclosure report in aggregated form at the group level. The figures reported in this report are based on the basis of consolidation in accordance with regulatory law.

This report includes the quantitative information required as at the closing date on

- Own funds
- Capital ratios
- Own funds requirements
- Information on risk exposures calculated in accordance with the IRB approach
- Leverage ratio.

The figures published in the disclosure report have been rounded to the next million in accordance with commercial principles. Accordingly, rounding differences may arise through aggregation.

2 Own funds and own funds requirements. (Articles 437 and 438 CRR)

Structure of own funds.

The following table sets out the LBBW Group's own funds pursuant to IFRS, as well as the regulatory adjustments and capital ratios.

EUR million	30 June 2016	31 March 2016
Capital components		
Common Equity Tier 1 (CET1) before regulatory adjustments	12 990	13 006
Regulatory adjustments to Common Equity Tier 1 (CET1) as a whole	- 1 149	- 1 151
Common Equity Tier 1 (CET1)	11 842	11 855
Additional Tier 1 (AT1) before regulatory adjustments	1 124	1 164
Regulatory adjustments to Additional Tier 1 (AT1) as a whole	- 289	- 277
Additional Tier 1 (AT1)	835	888
Tier 1 (T1 = CET1 + AT1)	12 677	12 743
Tier 2 (T2) before regulatory adjustments	3 349	3 390
Regulatory adjustments to Tier 2 (T2) as a whole	- 82	- 82
Tier 2 (T2) as a whole	3 268	3 308
Total capital (TC = T1 + T2)	15 945	16 051
Risk-weighted assets as a whole	76 916	76 485
Capital ratios and buffers		
CET1 capital ratio (expressed as a percentage of the total risk exposure amount)	15.4	15.5
T1 capital ratio (expressed as a percentage of the total risk exposure amount)	16.5	16.7
Total capital ratio (expressed as a percentage of the total risk exposure amount)	20.7	21.0

Figure 1: Type and amounts of capital instruments.

Change in own funds compared to 31 March 2016.

There were only immaterial changes in the composition of the LBBW Group's own funds over the comparison date. Common Equity Tier 1, Additional Tier 1 and also Tier 2 capital were slightly lower. In tandem with the slight increase in risk-weighted assets, this resulted in a minor change in the capital ratios.

Own funds requirements.

The following table shows the own funds requirements and the risk-weighted exposure values in terms of the risk types that are relevant under the regulatory framework (counterparty risk, market price risk and operational risks).

EUR million	Risk-weighted exposure value 30 June 2016	Own funds requirements 30 June 2016	Risk-weighted exposure value 31 March 2016	Own funds requirements 31 March 2016
1 Credit risks				
1.1 Credit risk standard approach				
Central governments	6	0	6	0
Regional governments and local authorities	1	0	1	0
Other public-sector agencies	78	6	54	4
Multilateral development banks	0	0	0	0
International organizations	0	0	0	0
Banks	747	60	692	55
Corporates	4 219	338	4 216	337
Retail business	3 754	300	3 864	309
Items secured by real estate	2 011	161	1 998	160
Past due items	214	17	240	19
Items exposed to particularly high risk	0	0	0	0
Covered bonds issued by banks	0	0	6	0
Risk exposure to banks and corporates with a short-term credit rating	1	0	0	0
Undertakings for collective investment (UCI)	0	0	0	0
Other items	104	8	104	8
Total credit risk standard approach	11 133	891	11 181	894
1.2 IRB approaches				
Central governments	3 721	298	3 689	295
Banks	4 387	351	3 992	319
Corporates - SMEs	2 499	200	2 480	198
Corporates - specialized lending exposures	8 965	717	9 363	749
Corporates - miscellaneous	24 029	1 922	23 973	1 918
Retail business - of which secured with real estate liens, SMEs	0	0	0	0
Retail business - of which secured with real estate liens, non-SMEs	0	0	0	0
Retail business - of which qualified, revolving	0	0	0	0
Retail business - of which other, SMEs	0	0	0	0
Retail business - of which other, non-SMEs	0	0	0	0
Other assets not relating to credit	2 119	170	1 867	149
Total IRB approaches	45 721	3 658	45 363	3 629
1.3 Securitization positions				
Securitization positions under CRS approach	9	1	9	1
of which resecritizations	1	0	1	0
Securitization positions under IRB approach	682	55	706	56
of which resecritizations	0	0	0	0
Total securitization positions	691	55	715	57
1.4 Equity investments				
Equity investments under IRB approach	2 865	229	2 839	227
of which Internal Model Method	0	0	0	0
of which PD/LGD approach	212	17	200	16
of which simple risk weight approach	1 682	135	1 661	133
of which exchange-traded equity investments	50	4	49	4
of which not exchange-traded but forming part of a sufficiently diversified equity investment portfolio	1 619	129	1 599	128
of which other equity investments	14	1	14	1
Equity investments under CRSA	1 011	81	1 032	83
of which investments held with method continuation/grandfathering	1 011	81	1 032	83
Total equity investments	3 876	310	3 871	310
1.5 Risk exposure amount for contributions to a default fund for a CCP	204	16	233	19
Total credit risks	61 626	4 930	61 363	4 909

EUR million	Risk-weighted exposure value 30 June 2016	Own funds requirements 30 June 2016	Risk-weighted exposure value 31 March 2016	Own funds requirements 31 March 2016
2. Settlement/delivery risk				
Settlement/delivery risk in the banking book	0	0	0	0
Settlement/delivery risk in the trading book	0	0	0	0
Total settlement/delivery risk	1	0	0	0
3 Market price risks				
Standard approach	2 718	217	2 675	214
of which interest rate risks	1 928	154	1 958	157
of which general and special price risks (net interest position)	1 928	154	1 958	157
of which securitization positions with special price risk in trading book	0	0	0	0
of which special price risk in correlation trading portfolio	17	1	17	1
of which equity risks	298	24	264	21
of which currency risks	456	36	411	33
of which risks from commodities positions	35	3	43	3
Internal Model Method	5 844	468	5 738	459
Total market price risks	8 563	685	8 413	673
4 Operational risks				
Basic indicator approach	0	0	0	0
Standard approach	4 715	377	4 715	377
Advanced measurement approach	0	0	0	0
Total operational risks	4 715	377	4 715	377
5 Total risk exposure for credit valuation adjustments	2 012	161	1 994	159
6 Total risk exposure resulting from large exposure in the trading book	0	0	0	0
7 Other	0	0	0	0
Total	76 916	6 153	76 485	6 119

Figure 2: Own funds requirements (Article 438 CRR).

Change in own funds requirements compared to 31 March 2016.

There was a slight increase in own funds requirements over the previous quarter. This was primarily due to new business with institutions reported in accordance with the Internal Ratings Based (IRB) approach. The opposite effect arose from repayments and rating changes for special lending exposures (IRB approach)

3 Counterparty default risk under the IRB approach. (Article 452 CRR)

Regulatory capital backing is based on the following rating systems in line with the IRB approach:

- Banks
- Country and transfer risks
- Insurance companies
- Project finance
- Corporates
- International real estate finance
- Sparkassen-Immobilien­geschäftsRating
- DSGVO-Haftungsverbund
- Sparkassen-StandardRating
- Specific special rating classes
- IAA procedure for measuring securitization positions
- Leasing
- Leveraged finance
- Aircraft finance
- International administrative authorities
- Funds

The CRS approach is used for all other portfolios of LBBW (Bank) and all other companies included in the regulatory basis of consolidation of the LBBW Group with the exception of the equity investment portfolio. The IRB approach is applied to the investment portfolios of all subsidiaries.

All rating methods yield a one-year local-currency PD. Any transfer risk is taken into account in the foreign currency (foreign currency PD). These PDs are transferred to a rating class using the master scale applied uniformly within Sparkassen-Finanzgruppe. The master scale comprises a total of 18 rating classes; of these, the first class is broken down into a further eight sub-classes and the last class before the default classes into a maximum of three sub-classes, depending on the rating procedure. Ratings 16 to 18 indicate default.

LBBW exposure positions which are classified as retail business are not yet measured using the IRB approach.

In the future, all materially significant portfolios and subsidiaries will be measured using the IRB approach. These portfolios are being migrated to the IRB approach for both the LBBW Group and LBBW (Bank) in close consultation with the responsible competent authorities.

Exposure amounts by probability of default class under the IRB approach.

The following table sets out the exposure classes covered by the IRB approach: central governments, banks, corporates including the specialized lending exposures and SMEs sub-classes as well as equity investments. The following parameters are applied:

- Total exposure values and the exposure values of non-drawn loan commitments
- Average probabilities of default (PDs) weighted with the exposure values
- Average risk weights weighted with the exposure values
- Total exposure values weighted with the respective average risk weights

Change in exposure values under the IRB approach compared to 31 December 2015.

Compared to the comparison date (31 December 2015), there was primarily an increase in exposure values in PD class 1 [(AAAA) – (A-)] in the central governments exposure class. This was primarily due to an increase in business with central banks. As these counterparties have a very good rating, this had only a very small impact on own funds requirements. The increase in the exposure values for the institutions exposure class in the same PD class reflects new business and rating changes in the comparison period.

Reporting date: 30 June 2016 EUR million	Exposure values		Average PD in %	Average risk weight in %	Exposure amount weighted with risk weight
Exposure class		of which outstanding credit commitments			
PD class 1 [(AAAA) - (A-)]/0.00% to <= 0.10%					
Central governments	51 213	783	0.01	2.69	1 380
Banks	25 461	244	0.06	8.28	2 108
Corporates	33 762	4 195	0.07	19.19	6 479
of which SMEs	1 744	58	0.05	13.01	227
of which specialized lending exposures	8 844	155	0.06	22.41	1 982
of which purchased receivables	0	0	0.00	0.00	0
Equity investments	101	0	0.09	74.66	75
Total	110 535	5 221			10 041
Total on 31 December 2015	97 452	5 312			9 569
PD classes 2 - 5/0.11% to <= 0.47%					
Central governments	119	0	0.26	3.87	5
Banks	7 652	125	0.19	19.99	1 529
Corporates	35 531	6 036	0.22	42.05	14 940
of which SMEs	1 987	138	0.25	38.57	766
of which specialized lending exposures	7 899	483	0.24	46.78	3 686
of which purchased receivables	0	0	0.00	0.00	0
Equity investments	28	0	0.13	84.14	24
Total	43 330	6 162			16 498
Total on 31 December 2015	40 665	6 811			15 604
PD classes 6 - 10/0.48% to <= 3.62%					
Central governments	461	0	0.82	89.43	412
Banks	995	0	1.24	62.09	618
Corporates	11 672	1 375	1.25	91.67	10 700
of which SMEs	1 484	94	1.26	78.14	1 160
of which specialized lending exposures	1 810	143	1.60	107.22	1 941
of which purchased receivables	0	0	0.00	0.00	0
Equity investments	2	0	2.08	289.17	5
Total	13 130	1 375			11 735
Total on 31 December 2015	13 747	1 326			12 191
PD classes 11 - 15/3.63% to <= 99.99%					
Central governments	16	0	19.69	252.00	40
Banks	16	0	5.08	56.91	9
Corporates	899	104	9.71	184.21	1 655
of which SMEs	163	5	8.87	145.87	238
of which specialized lending exposures	298	4	12.12	204.74	610
of which purchased receivables	0	0	0.00	0.00	0
Equity investments	24	0	6.67	448.19	107
Total	955	104			1 812
Total on 31 December 2015	970	142			1 780
PD classes 16 - 18/100% (default)					
Central governments	2	0	100.00	-	0
Banks	1	0	100.00	-	0
Corporates	2 087	50	100.00	-	0
of which SMEs	148	0	100.00	-	0
of which specialized lending exposures	712	23	100.00	-	0
of which purchased receivables	0	0	0.00	-	0
Equity investments	0	0	0.00	-	0
Total	2 090	50			0
Total on 31 December 2015	2 251	73			0

Reporting date: 30 June 2016 EUR million		Exposure values		Average PD in %	Average risk weight in %	Exposure amount weighted with risk weight
Exposure class			of which outstanding credit commitments			
Total						
Central governments	51 810		783	0.02	3.54	1 836
Banks	34 125		369	0.13	12.50	4 265
Corporates	83 951		11 759	2.88	40.23	33 774
of which SMEs	5 525		295	3.38	43.26	2 390
of which specialized lending exposures	19 563		809	4.10	42.01	8 219
of which purchased receivables	0		0	0.00	0.00	0
Equity investments	155		0	1.14	136.71	212
Total	170 040		12 911			40 086
Total on 31 December 2015	155 086		13 664			39 143

Figure 3: Exposure values used for ratings (excluding retail) under the IRB approach (Article 452 letters (d), (e) and (j) (ii) CRR).

4 Leverage ratio. (Article 451 CRR)

Disclosure of the leverage ratio as at 30 June 2016 is based on the stipulations of the Commission Delegated Regulation (EU) No. 2015/62 of 10 October 2014 amending Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to the leverage ratio.

1 Description of procedures to monitor the risk of excessive indebtedness	Description under LRQua 1
2 Description of factors which had an impact on the disclosed leverage ratio during the period under review	Description under LRQua 2

Figure 4: Disclosure of qualitative elements (LRQua).

LRQua 1: Description of procedures to monitor the risk of excessive indebtedness.

LBBW takes account of the risk of excessive indebtedness by including the leverage ratio in its planning and management process. An internal future target for the leverage ratio is calculated on the basis of LBBW's business and risk strategy and its implementation in medium-term planning. The management of the leverage ratio is embedded in the management of the LBBW Group's balance-sheet structure. At monthly intervals LBBW's comprehensive internal management reporting is used to report on the leverage ratio and key influencing factors. If required, the management approaches of the leverage ratio that have been identified for LBBW are discussed in the Asset Liability Committee (ALCo) in detail. The ALCo submits proposals for specific management measures to the Group's Board of Managing Directors where appropriate. Decisions are taken by the Group's Board of Managing Directors.

LRQua 2: Description of factors which had an impact on the disclosed leverage ratio during the period under review.

The leverage ratio on the basis of the CRR transitional provisions (phase-in) came to 4.8% as at 30 June 2016 (as at 31 March 2016: 5.0%). The decline in the debt ratio was caused by an increase in the leverage rating exposure (phase in) from EUR 257 345 million as at 31 March 2016 to EUR 263 992 million as at 30 June 2016 (+ EUR 6 647 million). The increase in the leverage ratio exposure is attributable particularly to the wider securities finance business and other on-balance-sheet transactions with central governments and central banks.

EUR million		Figures to be used
1	Total assets according to the published accounts	259 693
2	Adjustment for corporates that are consolidated for accounting purposes but do not form part of the regulatory basis of consolidation.	- 2 075
3	(Adjustment for fiduciary assets recognized in the balance sheet according to the applicable accounting provisions but which under Article 429 (13) of Regulation (EU) No. 575/2013 are excluded from the leverage ratio total exposure measure)	
4	Adjustments for derivative financial instruments	- 15 922
5	Adjustments for securities financing transactions (SFTs)	4 957
6	Adjustment for off-balance-sheet items (i.e. conversion of off-balance-sheet exposures into credit equivalent amounts)	15 721
EU-6a	(Adjustments for intra-group risk exposures which are excluded from the leverage ratio total exposure measure in accordance with Article 429 (7) of Regulation (EU) No. 575/2013)	
EU-6b	(Adjustments for risk exposures which are excluded from the leverage ratio total exposure measure in accordance with Article 429 (14) of Regulation (EU) No. 575/2013)	
7	Other adjustments	1 492
8	Leverage ratio total exposure measure	263 867

Figure 5: Comparison between balance sheet and overall exposure value measurement (LRSUM).

EUR million		Risk exposure values of the CRR leverage ratio
On-balance-sheet risk exposures (excluding derivatives and SFTs)		
1	On-balance-sheet items (excluding derivatives, SFTs and fiduciary assets but including collateral)	205 728
2	(Asset amounts deducted in the calculation of Tier 1 capital)	- 1 438
3	Total of on-balance-sheet risk exposures (excluding derivatives, SFTs and fiduciary assets) (total of rows 1 and 2)	204 290
Risk exposures from derivatives		
4	Replacement value of all derivatives transactions (i.e. excluding eligible additional contributions received in cash)	11 067
5	Premiums for the potential future replacement value with regard to all derivatives transactions (mark-to-market measurement method)	8 237
EU-5a	Risk exposure valued in accordance with the Original Exposure Method	
6	Addition of amount of collateral furnished in connection with derivatives that is deducted from total assets according to the applicable accounting standard	
7	(Deductions from receivables for additional contributions in cash for derivatives transactions)	- 10 257
8	(Excluded CCP portion of customer-cleared trading positions)	- 21
9	Adjusted effective nominal value of written credit derivatives	12 703
10	(Netting of adjusted effective nominal values and deduction of premiums for written credit derivatives)	- 4 581
11	Total risk exposures from derivatives (total of rows 4 to 10)	17 148
Risk exposures from securities financing transactions (SFTs)		
12	Gross assets from SFTs (without recognition of netting) after adjustment for transactions booked as sales	26 481
13	(Netted amounts of cash liabilities and receivables from gross assets from SFTs)	- 4 730
14	Counterparty default risk exposures for SFT assets	4 957
EU-14a	Divergent treatment of SFTs: counterparty default risk exposure in accordance with Article 429b (4) and Article 222 of Regulation (EU) No. 575/2013	
15	Risk exposures from transactions realized as an agent	
EU-15a	(Excluded CCP portion of customer-cleared SFT risk exposures)	
16	Total of risk exposures from securities financing transactions (total of rows 12 to 15)	26 708
Other off-balance-sheet risk exposures		
17	Off-balance-sheet risk exposures at their gross nominal value	44 638
18	(Adjustments for the conversion into credit equivalent amounts)	- 28 917
19	Other off-balance-sheet risk exposures (total of rows 17 and 18)	15 721
(On-balance-sheet and off-balance-sheet) risk exposures which may be excluded pursuant to Article 429 (14) of Regulation (EU) No. 575/2013		
EU-19a	(On-balance-sheet and off-balance-sheet) intra-group risk exposures (individual basis) which are excluded pursuant to Article 429 (7) of Regulation (EU) No. 575/2013	
EU-19b	(On-balance-sheet and off-balance-sheet) risk exposures which may be excluded pursuant to Article 429 (14) of Regulation (EU) No. 575/2013	
Equity and leverage ratio total exposure measure		
20	Tier 1 capital	12 677
21	Leverage ratio total exposure measure (total of rows 3, 11, 16, 19, EU-19a and EU-19b)	263 867
Leverage ratio		
22	Leverage ratio	4.8%
Transitional provision chosen and amount of derecognized fiduciary items		
EU-23	Transitional provision chosen for the definition of the capital measure	Phase-in
EU-24	Amount of fiduciary assets removed from the balance sheet in accordance with Article 429 (11) of Regulation (EU) No. 575/2013	-

Figure 6: Uniform disclosure schema for the leverage ratio (LRCom).

EUR million		Risk exposure values of the CRR leverage ratio
EU-1	Total of on-balance-sheet risk exposures (excluding derivatives, SFTs and excluded risk exposures), of which:	195 464
EU-2	Risk exposures in the trading book	30 700
EU-3	Risk exposures in the banking book, of which	164 763
EU-4	Covered bonds	1 394
EU-5	Risk exposures treated as risk exposures towards sovereigns	35 285
EU-6	of which risk exposures to regional authorities, multilateral development banks, international organizations and public-sector bodies which are not treated as risk exposures towards sovereigns	6 236
EU-7	Banks	29 876
EU-8	Collateralized by real estate liens	18 289
EU-9	Risk exposures from retail business	5 605
EU-10	Corporates	56 703
EU-11	Defaulted exposures	1 593
EU-12	Other risk exposures (e.g. equity investments, securitizations and other assets that are not loan commitments)	9 782

Figure 7: Breakdown of balance-sheet risk exposures (excluding derivatives, securities financing transactions (SFT) and excluded risk exposures) (LRSpl).

Abbreviations.

ALCo	Asset Liability Committee
AT1	Additional Tier 1 Capital
CET1	Common Equity Tier 1
CRD	Capital Requirements Directive
CRR	Capital Requirements Regulation
EBA	European Banking Authority
IAA	Internal Assessment Approach
IFRS	International Financial Reporting Standards
IRBA	Internal Ratings Based Approach
SME	Small and medium-sized enterprises
CRSA	Credit Risk Standard Approach
LGD	Loss given Default
UCI	Undertakings for collective investment
PD	Probability of Default
T2	Tier 2 capital
CCP	Central counterparty

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