

# Half-yearly financial report 2013.

# Key figures of the LBBW Group.

| Income statement (EUR million)   | 1 Jan. – 30 June 2013 | 1 Jan. – 30 June 2012 |
|--|-----------------------|-----------------------|
| Net interest income  | 933                   | 1 248                 |
| Allowances for losses on loans and advances  | - 137                 | - 91                  |
| Net fee and commission income  | 266                   | 247                   |
| Net gains/losses from financial instruments measured at fair value through profit or loss  | 187                   | - 176                 |
| Net gains/losses from financial investments, net income/expenses from investments accounted for using the equity method and from profit/loss transfer agreements | - 25                  | - 21                  |
| Other operating income/expenses <sup>1)</sup>  | 8                     | 38                    |
| <b>Total operating income/expenses (after allowances for losses on loans and advances)</b>   | <b>1 232</b>          | <b>1 245</b>          |
| Administrative expenses  | - 816                 | - 893                 |
| <b>Operating result</b>  | <b>416</b>            | <b>352</b>            |
| Guarantee commission for the State of Baden-Württemberg  | - 154                 | - 151                 |
| Impairment of goodwill   | - 2                   | 0                     |
| Net income/expenses from restructuring   | 0                     | - 7                   |
| <b>Net consolidated profit/loss before tax</b>   | <b>260</b>            | <b>194</b>            |
| Income tax   | - 84                  | - 29                  |
| <b>Net consolidated profit/loss</b>  | <b>176</b>            | <b>165</b>            |

| Key figures in %        | 1 Jan. – 30 June 2013 | 1 Jan. – 30 June 2012 |
|-------------------------|-----------------------|-----------------------|
| Return on equity (RoE)  | 4.0                   | 3.7                   |
| Cost Income Ratio (CIR) | 58.5                  | 65.7                  |

| Balance sheet figures (EUR million) | 30 June 2013 | 31 Dec. 2012 |
|-------------------------------------|--------------|--------------|
| Total assets                        | 306 807      | 336 326      |
| Risk position                       | 89 188       | 95 776       |
| Equity <sup>2)</sup>                | 19 876       | 20 037       |

| Regulatory figures                          | 30 June 2013 | 31 Dec. 2012 |
|---|--------------|--------------|
| Core capital (EUR million)                  | 14 769       | 14 675       |
| Own funds (EUR million)                     | 18 378       | 18 828       |
| Core capital ratio (Tier 1 ratio) (in %)    | 16.6         | 15.3         |
| Total ratio in accordance with SolvV (in %) | 20.6         | 19.7         |

| Employees | 30 June 2013 | 31 Dec. 2012 |
|-----------|--------------|--------------|
| Group     | 11 519       | 11 642       |

## Rating (5 August 2013)

| Rating agency             | Long-term rating<br>guaranteed obligations | Long-term rating<br>unguaranteed obligations | Financial strength | Pfandbriefe<br>(public sector covered bonds) | Pfandbriefe<br>(mortgage-backed covered bonds) |
|---------------------------|--|--|--------------------|--|--|
| Moody's Investors Service | Aaa <sup>3)</sup>                          | A3   | D+                 | Aaa  | Aaa  |
| Fitch Ratings             | AAA  | A+   | bbb-               | AAA  | -  |

1) The net income/expenses from investment property is shown as part of other operating income/expenses.

2) Equity plus subordinated debt in accordance with IFRS.

3) Rating Watch negative.

Figures may be subject to rounding differences.

# 2013

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# Foreword by the Board of Managing Directors.

Dear customers,  
dear business partners of the LBBW Group,

The economic performance of the LBBW Group again proved stable in the first half of 2013. In a still challenging setting we achieved a respectable overall result with a net consolidated profit before tax of EUR 260 million. This shows that the realignment of the Bank continues to have an impact.

Each of our three operating business segments made a positive contribution to earnings. However, in our corporate customer business we felt the effect of the highly competitive market setting and a subdued demand for credit on the part of customers, which in our view can also be attributed to the good liquidity situation of companies and a restraint on their part when it comes to capital spending. By contrast, the restraint shown by private customers in the securities business is now less pronounced. In the capital markets business the temporary calm on the financial markets is a positive factor. Furthermore, here we profit over the long term from our good positioning, for example in the area of borrower's note loans, corporate bonds, and securitizations for companies.

Apart from the stable trend in operating business, in the first half of the year we achieved some major successes in shoring up our long-term future.

In the past six months we made considerable additional progress in winding down our non-core bank activities. We reduced our credit substitute business by a further approx. EUR 6 billion over end-2012 and intend to continue taking advantage of the opportunities offered by the market for proactive sales. Here we once again deliberately accepted negative effects on our result in the first half of the year with a view to avoiding a future negative impact resulting from volatile markets. This means that we have wound down some 84% of our volumes in this sector since the beginning of restructuring. Overall, the volume of our risk weighted assets has decreased further by around EUR 7 billion compared to the end of 2012 thanks to cutting down non-customer-related business.

The LBBW Group's core capital ratio increased further, to 16.6% as at 30 June 2013. In addition, the quality and structure of the Bank's capital was further strengthened thanks to the decision taken by our owners to convert silent partners' contributions amounting to EUR 2.2 billion into core Tier 1 capital as at 1 January 2013. As a result of this we created further scope for growth in customer-related business despite more stringent overall regulatory conditions.

Apart from this, by concluding contracts with Finanz Informatik (FI) on outsourcing parts of our IT we laid the foundation stone for ensuring that the controlled and thus sustained growth of our core business we are aiming at continues to be supported by modern and efficient IT systems in the future. In view of the increasing challenges facing IT, which necessitate considerable investment in the medium term, we regard the collaboration with FI as a major step towards securing the future competitiveness of LBBW.

We are concerned about regulatory developments, which are putting increasing strain on the banking sector. Given the measures taken by a large number of players at the national, European and international level with a view to regulating the sector and the financial markets, the effects of interacting individual regulations, in particular, are virtually impossible to assess. We will continue to monitor closely and analyze developments here in order to be able to make any adjustments that may prove necessary at an early stage.

Although the setting for the banking industry is still characterized by considerable uncertainty and the underlying conditions for the sector are likely to remain difficult, we expect a clearly positive result for our Bank for the year as a whole.

A consistent focus on our customers is the mainstay of our business model and will remain so. We would like to thank you, our customers and business partners, for your cooperation, often over many years, and the constructive dialogue, which shows us where we still have room for further improvement. We hope that you will continue to place your trust in our Bank.

We would like to thank our owners for their confidence and the responsible backing they have given to the Bank in a phase of structural change. With your support, and thanks to the high level of commitment and flexibility shown by our employees, we have now largely completed the phase of restructuring and number among the particularly well-positioned names in the market.

We will continue to work resolutely through the tasks still remaining. In addition, we will focus more intensively on shoring up the stabilization achieved in the Group's results of operations, also against the backdrop of the changing underlying regulatory conditions, and on further improving our market position in our core business areas with circumspection and an eye to the long term.

Yours sincerely,

The Board of Managing Directors



**HANS-JÖRG VETTER**  
Chairman of the Board of  
Managing Directors



**MICHAEL HORN**  
Deputy Chairman of the Board of  
Managing Directors



**KARL MANFRED LOCHNER**  
Member of the Board of  
Managing Directors



**INGO MANDT**  
Member of the Board of  
Managing Directors

Generalbevollmächtigte (General Managers)



**DR. MARTIN SETZER**



**VOLKER WIRTH** (since 1 August 2013)

# Interim Group management report.

## Economic development in the first half of 2013.

The global economy started off the first half of 2013 on a cautious note. According to the IMF, growth rates for the global economy in the first quarter of 2013, projected for the year as a whole, increased only moderately to 2.75% compared with a growth rate of 2.5% in the second half of 2012.

Gross domestic product (GDP) within the eurozone as a whole declined by 0.2% in the first quarter of 2013. This was already the sixth consecutive decline. While German GDP picked up by 0.1%, France (-0.2%) and Italy (-0.6%) recorded further economic setbacks. Growth in Germany was driven almost exclusively by consumer spending, which increased by 0.8% quarter on quarter. Investments fell again by 2.4% quarter on quarter. No data is available yet for total demand in the second quarter, although the leading indicators as well as the industry's orders received suggest that the economy has clearly revived.

Inflation remained moderate in the first half of the year. The inflation rate in Germany maintained a comfortable distance to the 2.0% mark that is deemed critical, fluctuating between 1.2% and 1.8%. Although eurozone inflation was 2.0% in January, it has remained below this threshold ever since. The rate of inflation in the eurozone was last reported at 1.6%.

The EMU debt crisis continued to command great attention on the financial markets, even though prices were affected increasingly by other topics. In March, Cyprus was another eurozone member to face tremendous difficulties. The country's two largest banks had to be supported. The EMU partners granted support in the amount of EUR 10 billion, with the IMF contributing EUR 1 billion thereof. However, Cyprus has to raise the remainder itself. Within the scope of the mutual agreement, the banks' creditors and customers were therefore involved in equal measures in the bank rescue. Balances of less than EUR 100 000 were protected. Amount in excess of this were converted into Laiki Bank and Bank of Cyprus shares and will therefore in all likelihood be devalued completely. In order to control the anticipated flight of capital out of Cyprus, controls on capital movement were introduced that basically prohibited foreigners from withdrawing their balances out of the country. Both issues – the participation of customer deposits in the recapitalization of the banks and the introduction of controls on the movement of capital – are a first in the EMU debt crisis. While the original planning of the EMU resolution in March assumed a sum of EUR 17.5 billion, the Cypriot government raised the estimate to EUR 23 billion in April, of which EUR 13 billion are to be raised through the conversion of bank deposits into equity, as described above.

Unlike previous years, the rating agencies exercised restraint during the reporting period. In the eurozone, Fitch downgraded Italy from A- to BBB+ on 8 March. Rating agency Standard & Poor's followed on 9 July, with a downgrade from BBB+ to BBB. A short while later, Fitch was the last of the three big rating agencies to downgrade France, from AAA to AA+ on 12 July. At the same time, Fitch downgraded the EFSF bonds on 15 July from AAA to AA+. Greece was upgraded, also by Fitch, from CCC to B- on 14 May, in light of the support forthcoming from the EMU states. Among the smaller states, Slovenia and in particular Cyprus were downgraded.

This news impacted on prices on the bond markets, albeit to a much lesser extent than in the previous year. This year, market players were guided more by the signals given by the central banks. Bunds with a remaining maturity of 10 years, for example, reached a low (close of business) of 1.19% at the start of May. This was in anticipation of a further key rate cut by the ECB (to 0.50% for the main refinancing rate), which was then announced on 2 May. As things progressed, speculation about a turnaround in monetary policy in the US increasingly dominated the expectations of market players. The US Federal Reserve itself held out the prospect of a gradual exit from the bond purchasing program from the end of 2013 onwards and – in conjunction with further economic developments – signaled a possible increase in the fed funds target rate as of the end of 2014. 10-year US Treasury yields climbed to 2.48% by the end of June 2013, which equates to an increase of more than 80 basis points compared with the start of May. 10-year Bund yields rose in parallel to 1.73% at the end of the first half-year, which represents a yield increase of more than 50 basis points in less than two months.

The German equity market was spurred on by the prospect that the ECB would keep key interest rates low and by the prospect of an imminent end to the EMU debt crisis. The DAX, the market index of the largest listed companies, reached a new historical high since it was launched 25 years ago and traded at 8 530.89 points at closing on 22 May. The German MDAX also reached record levels at the end of May, as did the Dow Jones Industrial Index on the other side of the Atlantic, before concerns about the aforementioned turnaround in interest rates in the US gave rise to profit-taking.

On the foreign exchange markets, the EUR oriented itself around the USD/EUR 1.30 mark. One EUR cost USD 1.32 at the start of the year and USD 1.31 at mid-year. The low of almost USD 1.28 was reached during the reporting period at the end of March amid the Cyprus crisis. The high of above 1.36 was reached at the start of February. The performance of the Japanese JPY was striking. As a consequence of the very expansive policy pursued by the Japanese central bank, the country's currency eased significantly from the start to mid-2013. While one EUR cost less than JPY 114 at the start of January, it was above JPY 129 at the end of the first half-year.



## Business performance of the LBBW Group.

### Results of operations, net assets and financial position.

#### Solid operative development at LBBW Group but result burdened by difficult market environment.

Besides a possible turnaround towards a tighter monetary policy in the US, the other dominant issue on the financial markets in the first half of the year was the sovereign and banking crisis. While risk premiums on sovereigns and companies were stable to regressive in the first half of 2013, negative real interest rates had to be accepted on investments with a very good credit rating. In this context, LBBW Group generated an operating result of EUR 416 million. This represents an increase of EUR 64 million compared with the first half of the previous year. Net income from financial instruments measured at fair value through profit or loss was particularly positive; the interim result for the same period of the previous year was still burdened by extraordinary effects for valuation markdowns. Development as regards administrative expenses was also positive.

Total assets stood at EUR 306.8 billion at the end of the first half-year and risk weighted assets were EUR 89.2 billion. Both figures therefore posted a significant decline in terms of volume compared with year-end 2012. A key contributory factor was the further reduction in the credit investment portfolio. Furthermore, a slight increase in interest rates, derivatives netting through central clearing houses and the closure of derivatives positions at offsetting fair values at the portfolio level led to a fall in total assets.

LBBW Group once again had access to a high volume of cash and cash equivalents in the first half of 2013. Funding available on the market considerably exceeded LBBW's funding requirements.

As at the reporting date of 30 June 2013 the core capital ratio for the LBBW Group stood at 16.6%. Owing to the conversion of the silent partners' contributions of LBBW's owners as at 1 January 2013, within core capital the common equity ratio that must be adhered to in the future in accordance with the capital requirement regulations, was strengthened considerably.

## Results of operations.

Despite the significant reduction in risk the first six months of the 2013 financial year were concluded with a net profit before tax of EUR 260 million. The profit and loss account is shown in condensed form as follows:

|  | 1 Jan. –<br>30 June 2013 | 1 Jan. –<br>30 June 2012 | Change      |             |
|--|--------------------------|--------------------------|-------------|-------------|
|  | EUR million              | EUR million              | EUR million | in %        |
| Net interest income  | 933                      | 1 248                    | -315        | -25.2       |
| Allowances for losses on loans and advances  | -137                     | -91                      | -46         | 50.5        |
| Net fee and commission income  | 266                      | 247                      | 19          | 7.7         |
| Net gains/losses from financial instruments measured at fair value through profit or loss  | 187                      | -176                     | 363         | -           |
| Net gains/losses from financial investments, net income/expenses from investments accounted for using the equity method and from profit/loss transfer agreements | -25                      | -21                      | -4          | 19.0        |
| Other operating income/expenses <sup>1)</sup>  | 8                        | 38                       | -30         | -78.9       |
| <b>Total operating income/expenses (after allowances for losses on loans and advances)</b>   | <b>1 232</b>             | <b>1 245</b>             | <b>-13</b>  | <b>-1.0</b> |
| Administrative expenses  | -816                     | -893                     | 77          | -8.6        |
| <b>Operating result</b>  | <b>416</b>               | <b>352</b>               | <b>64</b>   | <b>18.2</b> |
| Guarantee commission for the State of Baden-Württemberg  | -154                     | -151                     | -3          | 2.0         |
| Impairment of goodwill   | -2                       | 0                        | -2          | 100.0       |
| Net income/expenses from restructuring   | 0                        | -7                       | 7           | -100.0      |
| <b>Net consolidated profit/loss before tax</b>   | <b>260</b>               | <b>194</b>               | <b>66</b>   | <b>34.0</b> |
| Income tax   | -84                      | -29                      | -55         | >100        |
| <b>Net consolidated profit/loss</b>  | <b>176</b>               | <b>165</b>               | <b>11</b>   | <b>6.7</b>  |

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

**Net interest income** fell by EUR -315 million or -25% in the first six months of 2013 to EUR 933 million. Particular mention should be given to the positive effect of around EUR 339 million from the previous year, arising from the changes in the present values of expected interest payments from silent partners' contributions and profit participation rights. Noticeably subdued demand for credit, a further reduction in the credit portfolio from a risk-optimization perspective and the lower interest rate environment compared with the previous year had an adverse effect overall on the results in 2013. On the other hand, interest expenses fell in the current year due to the conversion of silent partners' contributions at the start of the year and stabilized the result. Income from the disposal of borrower's note loans also had a positive effect on net interest income.

The net addition to **allowances for losses on loans and advances** increased by EUR –46 million over the first half of 2012 to EUR –137 million. LBBW consistently pursued its conservative risk policy. The ongoing stable economic situation in Germany and in LBBW's core markets helped support the measurement of the overall credit portfolio.

**Net fee and commission income** stood at EUR 266 million at the end of the second quarter. This represents an increase of EUR 19 million or 8% over the same period of the previous year. Net fee income from the securities and custody business as well as from asset management performed particularly well. LBBW benefited here from a receding sense of uncertainty on the financial markets and accordingly from a slight improvement in customer activity with the attendant increase in demand for capital market products. On the other hand, fee and commission income from the credit, trust and guarantee business was lower.

**Net gains/losses of financial instruments measured at fair value through profit or loss** increased significantly relative to the first half of 2012, by EUR 363 million to EUR 187 million. Owing to the increase in customer activities, a satisfactory result was achieved in the customer-related capital markets business. Spread tightening for credit derivatives in the credit investment portfolio had an overall positive effect of EUR 72 million on the profit and loss account, even though the contribution to results was down EUR 25 million on the previous year. That same year was burdened considerably by valuation adjustments (for market parameters, counterparty risks and legal risks, among other things). The mark-to-market valuation of own liabilities led to a reduction in the result (EUR –57 million), which was nonetheless also lower than the previous year.

**Other operating income/expenses** amounted to EUR 8 million after EUR 38 million the year before. Successful project developments completed in the real estate sector (EUR 42 million) were offset by falling income from investment property (EUR –16 million), due to the sale of residential real estate, among other things, in the previous year. Other operating income/expenses were also burdened by legal risks of EUR –11 million. Within the scope of the planned reduction of the investment portfolio, the intended sale of a subsidiary generated an expense of EUR –29 million.

**Net gains/losses from financial investments, net income/expenses from investments accounted for using the equity method and from profit/loss transfer agreements** as at 30 June 2013 were slightly weaker than the previous year, falling by EUR –4 million to EUR –25 million. The result was once again dominated by the ongoing decline in volume and risk in the credit investment portfolio that is no longer included in the core business area and the further reduction in the international public finance portfolio. Negative effects on the results were deliberately accepted. In the first half-year the sale of equity investments generated an income of EUR 10 million. This figure was therefore below that of the pre-year period (EUR 52 million).

**Administrative expenses** amounted to EUR – 816 million in the first half of the year and were thus clearly below the previous year's figure by EUR 77 million, representing a – 9% decline. Total staff costs fell by EUR 16 million, which is chiefly due the restructuring that is meanwhile largely completed. Operating expenses, including depreciation, declined despite burdens of EUR 61 million arising from the planned outsourcing of IT systems. The reduction was spread over almost all other operating expense items. Furthermore, expenses for advisory and legal costs were reduced by EUR 16 million and the charge arising from the bank levy by EUR 13 million. Expenses for depreciation, amortization and write-downs of intangible assets and property and equipment fell by EUR 12 million.

The **operating result** was therefore increased by EUR 64 million year on year to EUR 416 million.

Including the expenses arising from the **guarantee commission** for the State of Baden-Württemberg of EUR –154 million and the **impairment loss for goodwill** of EUR –2 million, **net consolidated profit/loss before tax** came to EUR 260 million, compared with EUR 194 million in the previous year.

The **income tax expense** increased by EUR – 55 million to EUR – 84 million, whereby current income taxes amounted to EUR – 26 million, income taxes in respect of prior years to EUR – 55 million and deferred taxes to EUR – 3 million.

**Net consolidated profit/loss after tax** thus amounted to EUR 176 million in the first half of 2013, after EUR 165 million in the same period of the previous year.

## Net assets and financial position.

|   | 30 June 2013   | 31 Dec. 2012   | Change          |              |
|---|----------------|----------------|-----------------|--------------|
| <b>Assets</b>   | EUR million    | EUR million    | EUR million     | in %         |
| Cash and cash equivalents   | 6 005          | 2 909          | 3 096           | >100         |
| Loans and advances to banks   | 52 578         | 50 066         | 2 512           | 5.0          |
| Loans and advances to customers   | 112 569        | 117 170        | –4 601          | –3.9         |
| Allowances for losses on loans and advances   | – 2 240        | – 2 505        | 265             | – 10.6       |
| Financial assets measured at fair value through profit or loss                        | 85 968         | 110 464        | –24 496         | –22.2        |
| Financial investments and shares in investments accounted for using the equity method | 46 297         | 53 074         | –6 777          | – 12.8       |
| Portfolio hedge adjustment attributable to assets                                     | 460            | 580            | – 120           | –20.7        |
| Non-current assets held for sale or disposal groups                                   | 1 252          | 23             | 1 229           | >100         |
| Intangible assets   | 483            | 502            | – 19            | –3.8         |
| Investment property   | 510            | 516            | – 6             | – 1.2        |
| Property and equipment  | 635            | 710            | – 75            | – 10.6       |
| Current income tax assets   | 188            | 182            | 6               | 3.3          |
| Deferred income tax assets  | 1 148          | 1 271          | – 123           | –9.7         |
| Other assets  | 954            | 1 364          | – 410           | –30.1        |
| <b>Total assets</b>   | <b>306 807</b> | <b>336 326</b> | <b>– 29 519</b> | <b>– 8.8</b> |

|   | 30 June 2013   | 31 Dec. 2012   | Change          |              |
|---|----------------|----------------|-----------------|--------------|
|   | EUR million    | EUR million    | EUR million     | in %         |
| <b>Equity and liabilities</b>                                       |                |                |                 |              |
| Deposits from banks   | 66 833         | 64 236         | 2 597           | 4.0          |
| Deposits from customers   | 81 253         | 85 332         | - 4 079         | - 4.8        |
| Securitized liabilities   | 55 906         | 61 589         | - 5 683         | - 9.2        |
| Financial liabilities measured at fair value through profit or loss | 76 229         | 99 732         | - 23 503        | - 23.6       |
| Portfolio hedge adjustment attributable to liabilities              | 829            | 1 199          | - 370           | - 30.9       |
| Provisions  | 3 230          | 3 133          | 97              | 3.1          |
| Liabilities from disposal groups                                    | 1 010          | 0              | 1 010           | 100.0        |
| Current income tax liabilities                                      | 260            | 200            | 60              | 30.0         |
| Deferred income tax liabilities                                     | 167            | 170            | - 3             | - 1.8        |
| Other liabilities   | 1 214          | 698            | 516             | 73.9         |
| Subordinated capital  | 6 813          | 9 715          | - 2 902         | - 29.9       |
| Equity  | 13 063         | 10 322         | 2 741           | 26.6         |
| Share capital   | 3 484          | 2 584          | 900             | 34.8         |
| Capital reserve   | 8 240          | 6 910          | 1 330           | 19.2         |
| Retained earnings   | 1 219          | 771            | 448             | 58.1         |
| Other income  | - 77           | - 363          | 286             | - 78.8       |
| Unappropriated profit/loss  | 180            | 399            | - 219           | - 54.9       |
| Equity attributable to non-controlling interest                     | 17             | 21             | - 4             | - 19.0       |
| <b>Total equity and liabilities</b>                                 | <b>306 807</b> | <b>336 326</b> | <b>- 29 519</b> | <b>- 8.8</b> |
| Guarantee and surety obligations                                    | 6 130          | 6 464          | - 334           | - 5.2        |
| Irrevocable loan commitments  | 22 423         | 22 381         | 42              | 0.2          |
| <b>Business volume</b>  | <b>335 360</b> | <b>365 171</b> | <b>- 29 811</b> | <b>- 8.2</b> |

### Consolidated total assets continue to fall.

**Total assets** of the LBBW Group amounted to EUR 306.8 billion as at 30 June 2013 and were therefore EUR - 29.5 billion lower than at year-end 2012. The slight increase in interest rates in the first half of the year resulted in a decline in the fair values of interest rate derivatives in particular. The netting of derivatives with central clearing houses and the closure of derivatives positions at offsetting fair values at the portfolio level with various counterparties involving an external service provider also had the effect of reducing total assets.

The business volume fell year on year by EUR - 29.8 billion to EUR 335.4 billion.

### Lending.

At EUR 6.0 billion as at the reporting date of 30 June 2013, the volume of **cash and cash equivalents** was EUR 3.1 billion higher than at year-end 2012.

**Loans and advances to banks** increased by EUR 2.5 billion or 5% over 31 December 2012 to EUR 52.6 billion. The increase was down to securities repurchase agreements (EUR 4.1 billion) that were partly offset by maturing public-sector loans of EUR - 2.3 billion.

During the reporting period, the volume of **loans and advances to customers** fell by EUR –4.6 billion or –3.9% to EUR 112.6 billion. The decline essentially impacted on construction financing and mortgage loans that were offset by a higher volume of securities repurchase agreements and transmitted loans.

The decline in **financial assets measured at fair value through profit or loss** of EUR –24.5 billion or –22.2% to EUR 86.0 billion was mainly due to the transfer of derivatives to the central clearing houses and the subsequent netting. Derivatives at offsetting values at the portfolio level were also concluded in the first half of 2013. The overall increase in interest rates compared with year-end 2012 drove down the fair values of the derivatives further.

Holdings of **financial investments and shares in investments accounted for using the equity method** fell by EUR –6.8 billion or –12.8% to EUR 46.3 billion. This drop was attributable mainly to a further reduction in the credit investment portfolio as well as maturities in debentures and other fixed-income securities.

As at the reporting date, the balance sheet item **non-current assets held for sale and disposal groups** included the assets of companies held for sale in accordance with IFRS 5.

#### **Funding.**

The cautious lending business overall was reflected in the low funding requirement.

**Deposits from banks** increased by EUR 2.6 billion or 4.0% over 31 December 2012 to EUR 66.8 billion. This was largely due to an increase in securities repurchase agreements (EUR 4.3 billion) and development loans (EUR 1.7 billion), which were partly offset by maturing public registered covered bonds and debentures totaling EUR –3.0 billion.

In contrast, **deposits from customers** eased in the same period by EUR –4.1 billion or –4.8% to EUR 81.3 billion, with maturing debentures accounting for EUR –1.8 billion and term deposits for a further EUR –1.7 billion of this decline.

The volume of **securitized liabilities** came to EUR 55.9 billion at the end of the reporting period. It fell by EUR –5.7 billion or –9.2% compared with year-end 2012, as a consequence of redemptions and maturities, particularly of public-sector covered bonds, bearer bonds and certificates.

The decline of EUR –23.5 billion or –23.6% in the balance sheet item **financial liabilities measured at fair value through profit or loss** to a total of EUR 76.2 billion as at 30 June 2013 was chiefly a result of the netting of derivatives conducted with central clearing houses in the first half-year. Derivatives at offsetting fair values at the portfolio level were also concluded in the first half of 2013. The lower fair values of interest rate derivatives compared with year-end 2012 because of higher interest rates also resulted in a decline.

As at the reporting date, the balance sheet item **liabilities from disposal groups** included the debt of companies held for sale in accordance with IFRS 5.

**Other liabilities** increased by EUR 0.5 billion to EUR 1.2 billion due to the profit participation rights repayable in 2013, including interest expenses, among other things.

#### Equity.

**Consolidated equity** increased up to 30 June 2013 by a total of EUR 2.8 billion or 26.5%, to EUR 13.1 billion, with the conversion of silent partners' contributions accounting for EUR 2.2 billion thereof. Furthermore, the revaluation reserve was positive overall at EUR 0.3 billion.

## Risk report.

The LBBW Group generally continued to apply the methods and processes of risk management described in the 2012 Annual Report as at 30 June 2013. Changes are described below. The LBBW definitions of the relevant risk types are summarized in the following table:

### Risk types.

#### Risk types.

| Material risks | Risk category        | Describes possible ...   |
|----------------|----------------------|--|
|                | Credit risks         | ... losses arising from the default or deterioration in the credit rating of business partners.<br>... defaults by sovereign borrowers or restrictions on payments.<br>... 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.   |
|                | Liquidity risks      | ... problems meeting payment obligations in the short term, or not being able to quickly close out larger positions at market value.   |
|                | 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.  |
|                | Funding risks        | ... additional expense as a result of higher funding costs.  |
|                | Model risks          | ... misrepresentations of actual risk.   |
|                | Dilution risks       | ... losses due to a lack of legal payment obligations for purchased receivables.   |
|                | Fund placement risks | ... losses due to non-placement of equity components in the case of closed-end funds.  |

Detailed comments on the definition and management of all risks can be found in the risk report included in the 2012 annual report.



## Further developments.

LBBW's overall bank management is currently undergoing further development. The focus is on harmonizing the accounting systems and reporting structures between the steering segments accounting and reporting, Group risk and financial controlling, and the creation of the basis (processes, methods, IT) for aligning integrated bank management to the heightened requirements. The structural challenges are being addressed in a medium-term program.

LBBW is subject to the regulations contained in the Minimum Requirements for Risk Management (MaRisk). In 2012, the German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht – BaFin) issued the 4th MaRisk draft for consultation and published the official and revised final version on 14 December 2012. The new minimum requirements came into force on 1 January 2013 and must by and large be implemented by 31 December 2013. Individual issues in the draft were already implemented in 2012. The remaining issues will be addressed in the course of 2013.

## Risk situation and risk-bearing capacity.

Internal monitoring of risk-bearing capacity within the internal capital adequacy assessment process (ICCAP) together with the regular reconciliation of aggregate risk cover with risks ensures that the LBBW Group has adequate economic capital resources.

There has been a further improvement in the material risk situation since the end of 2012. This is particularly due to the systematic run-off of the non-core business portfolio and the positive market situation with respect to credit spreads and volatility. On the other hand, the reduction in the interest rate stipulated by IFRS has caused an increase in pension risks.

A substantial strain on economic capital arose from the appreciably more conservative calculation particularly of the economic capital backing required for market price risks. In the first half of 2013, aggregate risk cover benefited from the favorable earnings situation but simultaneously came under pressure from the run-off of equity instruments planned for next year but already placed on the books and from more precisely worded regulatory requirements.

In summary, the LBBW Group's risk-bearing capacity and stress resistance was safe-guarded at all times throughout the first half of 2013.

The economic capital limit was maintained at all times at the Group level. Utilization of the aggregate risk cover stood at 58% as at 30 June 2013.

## LBBW Group – risk-bearing capacity.

| EUR million                          | 30 June 2013           |             | 31 Dec. 2012           |             |
|--------------------------------------|------------------------|-------------|------------------------|-------------|
|                                      | Absolute <sup>1)</sup> | Utilization | Absolute <sup>1)</sup> | Utilization |
| Aggregate risk cover <sup>2)</sup>   | 16 361                 | 58 %        | 17 141                 | 60 %        |
| Economic capital limit <sup>3)</sup> | 12 800                 | 74 %        | 13 600                 | 75 %        |
| Economic capital tie-up              | 9 494                  |             | 10 249                 |             |
| of which:                            |                        |             |                        |             |
| diversification effects              | - 541                  |             | - 738                  |             |
| credit risk                          | 4 508                  |             | 5 622                  |             |
| market price risk                    | 2 740                  |             | 2 661                  |             |
| investment risk                      | 191                    |             | 192                    |             |
| operational risk                     | 831                    |             | 900                    |             |
| development risk                     | 114                    |             | 163                    |             |
| real estate risk                     | 266                    |             | 267                    |             |
| other risks <sup>4)</sup>            | 1 385                  |             | 1 182                  |             |

1) Confidence level of 99.93%/1-year holding period.

2) 06/2013 value = indication for June 2014 as this constitutes the minimum based on a rolling 12-month view.

3) The individual risk types are capped by means of economic capital limits.

4) Other risks (especially reputation, business and pension risks).

## Credit risks.

### Risk situation.<sup>1)</sup>

The primary parameter in the following comments is exposure. Gross exposure is defined here as the fair value or utilization plus open external loan commitments. Net exposure also includes risk-mitigating effects such as 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 sureties.

### Development of exposure and collateral.

The following table tracks the trends in the two exposure parameters as well as the risk-mitigating effects when compared with the previous six months.

#### Development of exposure and collateral

| EUR million               | 30 June 2013   | 31 Dec. 2012   |
|---------------------------|----------------|----------------|
| <b>Gross exposure</b>     | <b>384 091</b> | <b>426 582</b> |
| Netting/collateral        | 52 704         | 77 002         |
| Credit derivatives        | 26 050         | 29 338         |
| Classic credit collateral | 41 800         | 42 677         |
| <b>Net exposure</b>       | <b>263 536</b> | <b>277 565</b> |

This change was marked by, first of all, trends in the fair value of interest rate derivatives, secondly, by the closing out of derivative positions at offsetting fair values at the portfolio level and, thirdly, by the run-off of the non-core business portfolio. Trends in fair value also resulted in reduced scope for netting interest rate derivatives, thus leading to a substantial decline in netting effects in the period under review. For this reason, net exposure shrank by only EUR 14 billion or 5% to around EUR 264 billion in the same period. This decline is reflected in the portfolio run-offs.

The following comments on customer segments, portfolio quality, regions, ratings, sectors and size classes provide a broad overview of the aspects which are relevant for LBBW's risk situation. In the absence of any indication to the contrary, this information is based on net exposure.

1) Comments on the risk situation are made on the basis of the management approach (with the exception of the details of exposure to Ireland, Italy, Portugal and Spain). Differences over the valuation methods applied for accounting purposes are due to the factors explained in the 2012 risk report.

## Structure of the credit portfolio by balance sheet class.

The following table describes LBBW's credit portfolio by balance sheet class:

Structure of the credit portfolio by balance sheet class

| 30 June 2013   |                |                        |   |                      |                 |
|--|----------------|------------------------|---|----------------------|-----------------|
| EUR million  | Gross exposure | Netting/<br>collateral | Credit<br>derivatives<br>(Protection Buy) | Credit<br>collateral | Net<br>exposure |
| Cash and cash equivalents                            | 6 169          | 0                      | 0   | 0                    | 6 169           |
| <b>Assets carried at amortized cost</b>              |                |                        |   |                      |                 |
| Loans and advances to banks                          | 54 409         | 5 220                  | 0   | 2 303                | 46 886          |
| Loans and advances to customers                      | 110 271        | 5 573                  | 0   | 34 830               | 69 867          |
| of which finance leases                              | 3 282          | 0                      | 0   | 0                    | 3 282           |
| Financial investments                                | 17 267         | 0                      | 0   | 28                   | 17 238          |
| interest-bearing assets                              | 17 267         | 0                      | 0   | 28                   | 17 238          |
| non-interest-bearing assets                          | 0              | 0                      | 0   | 0                    | 0               |
| <b>Assets measured at fair value</b>                 |                |                        |   |                      |                 |
| Financial investments                                | 23 955         | 0                      | 64  | 218                  | 23 674          |
| interest-bearing assets                              | 21 165         | 0                      | 64  | 218                  | 20 884          |
| non-interest-bearing assets                          | 2 790          | 0                      | 0   | 0                    | 2 790           |
| Positive fair values from hedging derivatives        | 5 661          | 5 421                  | 0   | 7                    | 233             |
| Trading assets (HFT)                                 | 115 460        | 35 781                 | 25 952                                    | 1 574                | 52 152          |
| Financial assets designated at fair value            | 1 660          | 708                    | 34  | 26                   | 891             |
| Non-current assets held for sale and disposal groups | 0              | 0                      | 0   | 0                    | 0               |
| Loan commitments and other agreements                | 49 239         | 0                      | 0   | 2 814                | 46 426          |
| <b>Total</b>   | <b>384 091</b> | <b>52 704</b>          | <b>26 050</b>                             | <b>41 800</b>        | <b>263 536</b>  |

| 31 Dec. 2012   |                |                        |  |                   |                |
|--|----------------|------------------------|--|-------------------|----------------|
| EUR million  | Gross exposure | Netting/<br>collateral | Credit derivatives<br>(Protection Buy) | Credit collateral | Net exposure   |
| Cash and cash equivalents                            | 2 347          | 0                      | 0                                      | 0                 | 2 347          |
| <b>Assets carried at amortized cost</b>              |                |                        |  |                   |                |
| Loans and advances to banks                          | 56 435         | 4 025                  | 0                                      | 2 540             | 49 870         |
| Loans and advances to customers                      | 115 122        | 4 971                  | 0                                      | 35 102            | 75 049         |
| of which finance leases                              | 3 385          | 0                      | 0                                      | 0                 | 3 385          |
| Financial investments                                | 18 495         | 0                      | 0                                      | 33                | 18 463         |
| interest-bearing assets                              | 18 495         | 0                      | 0                                      | 33                | 18 463         |
| non-interest-bearing assets                          | 0              | 0                      | 0                                      | 0                 | 0              |
| <b>Assets measured at fair value</b>                 |                |                        |  |                   |                |
| Financial investments                                | 29 008         | 0                      | 3 509                                  | 0                 | 25 500         |
| interest-bearing assets                              | 25 693         | 0                      | 3 509                                  | 0                 | 22 184         |
| non-interest-bearing assets                          | 3 315          | 0                      | 0                                      | 0                 | 3 315          |
| Positive fair values from hedging derivatives        | 7 042          | 6 837                  | 0                                      | 18                | 187            |
| Trading assets (HfT)                                 | 143 035        | 60 009                 | 25 770                                 | 1 724             | 55 532         |
| Financial assets designated at fair value            | 2 353          | 1 160                  | 60                                     | 27                | 1 105          |
| Non-current assets held for sale and disposal groups | 7              | 0                      | 0                                      | 0                 | 7              |
| Loan commitments and other agreements                | 52 738         | 0                      | 0                                      | 3 233             | 49 505         |
| <b>Total</b>   | <b>426 582</b> | <b>77 002</b>          | <b>29 338</b>                          | <b>42 677</b>     | <b>277 565</b> |

### Customer segments.

The following table breaks down net exposure and credit value-at-risk (CVaR) by customer segment. CVaR represents the economic capital of the credit risks included in the calculation of risk-bearing capacity.

#### Customer segments

| EUR million            | Net exposure<br>30 June 2013 | CVaR<br>30 June 2013 | Net exposure<br>31 Dec. 2012 | CVaR<br>31 Dec. 2012 |
|------------------------|------------------------------|----------------------|------------------------------|----------------------|
| Financial institutions | 129 762                      | 1 323                | 129 865                      | 1 360                |
| Companies              | 77 497                       | 2 343                | 81 047                       | 2 963                |
| Public sector          | 49 102                       | 677                  | 59 089                       | 1 079                |
| Private individuals    | 7 176                        | 165                  | 7 563                        | 221                  |
| <b>Total</b>           | <b>263 536</b>               | <b>4 508</b>         | <b>277 565</b>               | <b>5 622</b>         |

As was the case as at 31 December 2012, financial institutions account for the largest of the four customer segments (financial institutions, companies, public sector, and private individuals) in net exposure. At EUR 130 billion, this figure was unchanged over the end of the previous year.

Net exposure to companies dropped by 4% or just under EUR 4 billion over 31 December 2012 to EUR 77 billion. The more pronounced decline in credit value-at-risk (-21%) is due to numerous individual effects (e.g., portfolio effects such as rating improvements and reductions in non-investment-grade names, methodology adjustments and market data). The high economic capital tied up in this customer segment compared with financial institutions reflects the heterogeneous rating structure of the company portfolio.

Net exposure to public-sector bodies contracted by EUR 10 billion to EUR 49 billion. This reduction was predominantly concentrated in Germany and South Western Europe. In addition to the reduced exposure, interest rate trends provided slight relief with respect to CVaR in the case of German public-sector bodies.

For private individuals there was a decline in net exposure and CVaR. With its high granularity, this customer segment contributes to portfolio diversification.

### Portfolio quality.

The breakdown of the portfolio by external rating class shows how the portfolio quality has developed over the previous six-month period.

#### Portfolio quality

| Net exposure | EUR million<br>30 June 2013 | in %<br>30 June 2013 | EUR million<br>31 Dec. 2012 | in %<br>31 Dec. 2012 |
|--------------|-----------------------------|----------------------|-----------------------------|----------------------|
| AAA          | 133 572                     | 50.7                 | 142 585                     | 51.4                 |
| AA           | 3 788                       | 1.4                  | 3 524                       | 1.3                  |
| A            | 45 719                      | 17.3                 | 44 862                      | 16.2                 |
| BBB          | 44 954                      | 17.1                 | 46 568                      | 16.8                 |
| BB           | 23 020                      | 8.7                  | 26 129                      | 9.4                  |
| B+           | 2 013                       | 0.8                  | 2 310                       | 0.8                  |
| B/B-         | 3 284                       | 1.2                  | 3 932                       | 1.4                  |
| C            | 581                         | 0.2                  | 681                         | 0.2                  |
| Other        | 2 421                       | 0.9                  | 2 473                       | 0.9                  |
| Default      | 4 183                       | 1.6                  | 4 501                       | 1.6                  |
| <b>Total</b> | <b>263 536</b>              | <b>100.0</b>         | <b>277 565</b>              | <b>100.0</b>         |

As was the case as at the reporting date of 31 December 2012, a good half of net exposure was in the best rating class (AAA). The proportion of very good to good ratings (AA to BBB) widened from 34.3% to 35.8% during this period. The share of the entire portfolio with an investment-grade rating (AAA to BBB) now stands at 86.5% (31 December 2012: 85.7%). The decline of EUR 0.3 billion in the default rating class is particularly due to changes in the exposure of existing commitments and the derecognition and sale of defaulting exposures.

### Portfolio quality – assets past due 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 provisions are created. As at 30 June 2013, this applied to gross exposure of EUR 189 million, equivalent to 0.05% of the portfolio.

#### Structure of the portfolio of assets that are past due and not impaired

| EUR million  |            |                    |                    |                    |                     |             |                       |                       |  |
|--|------------|--------------------|--------------------|--------------------|---------------------|-------------|-----------------------|-----------------------|--|
| as at 30 June 2013                                   | <= 1 month | > 1 to<br>3 months | > 3 to<br>6 months | > 6 to<br>9 months | > 9 to<br>12 months | > 12 months | Total<br>30 June 2013 | Total<br>31 Dec. 2012 |  |
| Cash and cash equivalents                            | 0          | 0                  | 0                  | 0                  | 0                   | 0           | 0                     | 0                     |  |
| <b>Assets carried at amortized cost</b>              |            |                    |                    |                    |                     |             |                       |                       |  |
| Loans and advances to banks                          | 0          | 0                  | 0                  | 0                  | 0                   | 0           | 0                     | 0                     |  |
| Loans and advances to customers                      | 12         | 75                 | 5                  | 6                  | 10                  | 79          | 188                   | 136                   |  |
| of which finance leases                              | 0          | 0                  | 0                  | 0                  | 0                   | 0           | 0                     | 0                     |  |
| Financial investments                                | 0          | 0                  | 0                  | 0                  | 0                   | 0           | 0                     | 0                     |  |
| interest-bearing assets                              | 0          | 0                  | 0                  | 0                  | 0                   | 0           | 0                     | 0                     |  |
| non-interest-bearing assets                          | 0          | 0                  | 0                  | 0                  | 0                   | 0           | 0                     | 0                     |  |
| <b>Assets measured at fair value</b>                 |            |                    |                    |                    |                     |             |                       |                       |  |
| Financial investments                                | 0          | 0                  | 0                  | 0                  | 0                   | 0           | 0                     | 0                     |  |
| interest-bearing assets                              | 0          | 0                  | 0                  | 0                  | 0                   | 0           | 0                     | 0                     |  |
| non-interest-bearing assets                          | 0          | 0                  | 0                  | 0                  | 0                   | 0           | 0                     | 0                     |  |
| Positive fair values from hedging derivatives        | 0          | 0                  | 0                  | 0                  | 0                   | 0           | 0                     | 0                     |  |
| Trading assets (HfT)                                 | 0          | 0                  | 0                  | 0                  | 0                   | 0           | 0                     | 0                     |  |
| Financial assets designated at fair value            | 0          | 0                  | 0                  | 0                  | 0                   | 0           | 0                     | 0                     |  |
| Non-current assets held for sale and disposal groups | 0          | 0                  | 0                  | 0                  | 0                   | 0           | 0                     | 0                     |  |
| Loan commitments and other agreements                | 0          | 0                  | 0                  | 0                  | 0                   | 0           | 0                     | 0                     |  |
| <b>Total</b>   | <b>13</b>  | <b>75</b>          | <b>6</b>           | <b>6</b>           | <b>10</b>           | <b>79</b>   | <b>189</b>            | <b>136</b>            |  |



### Portfolio quality – impaired assets.

In addition to impaired financial investments, the following table shows loans and advances to customers for which impairments are recognized.

#### Structure of the impaired portfolio

| <b>Impaired assets</b>                               |              |              |
|--|--------------|--------------|
| Gross exposure in EUR million                        | 30 June 2013 | 31 Dec. 2012 |
| Cash and cash equivalents                            | 0            | 0            |
| <b>Assets carried at amortized cost</b>              |              |              |
| Loans and advances to banks                          | 32           | 38           |
| Loans and advances to customers                      | 3 566        | 4 573        |
| of which finance leases                              | 152          | 150          |
| Financial investments                                | 0            | 0            |
| interest-bearing assets                              | 0            | 0            |
| non-interest-bearing assets                          | 0            | 0            |
| <b>Assets measured at fair value</b>                 |              |              |
| Financial investments                                | 398          | 421          |
| interest-bearing assets                              | 398          | 421          |
| non-interest-bearing assets                          | 0            | 0            |
| Positive fair values from hedging derivatives        | 0            | 0            |
| Trading assets (HFT)                                 | 0            | 0            |
| Financial assets designated at fair value            | 0            | 0            |
| Non-current assets held for sale and disposal groups | 0            | 0            |
| Loan commitments and other agreements                | 257          | 250          |
| <b>Total</b>   | <b>4 252</b> | <b>5 283</b> |

Impaired assets dropped by EUR 1.0 billion compared with 31 December 2012. The change primarily related to loans and advances to customers. As a result of this decline, the proportion of the portfolio of assets that are neither in arrears nor impaired widened slightly to 98.8% (31 December 2012: 98.7%).

### Regions.

The share of domestic business in net exposure contracted by 1.6 percentage points over 31 December 2012 to around 73% chiefly as a result of the reduction in municipal business outside the core market. 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, German business will continue to account for a large part of the portfolio.

Foreign exposure was particularly spread across Western Europe and North America.

By contrast, exposure to Eastern Europe, Latin America, Africa and supranationals is of only subordinate importance.

## Regions

| Net exposure in %                  | Share<br>30 June 2013 | Share<br>31 Dec. 2012 |
|------------------------------------|-----------------------|-----------------------|
| Germany                            | 73.1%                 | 74.7%                 |
| Western Europe (excluding Germany) | 17.9%                 | 17.9%                 |
| North America                      | 5.8%                  | 4.5%                  |
| Asia/Pacific                       | 1.3%                  | 1.2%                  |
| Eastern Europe                     | 1.1%                  | 1.1%                  |
| Latin America                      | 0.7%                  | 0.6%                  |
| Africa                             | 0.0%                  | 0.0%                  |
| Supranationals                     | 0.0%                  | 0.0%                  |
| <b>Total</b>                       | <b>100.0%</b>         | <b>100.0%</b>         |

The European sovereign debt crisis continued to adversely affect the quality of the LBBW Group's portfolio. Measures were taken to reduce risk as part of country risk management. Attention was focused particularly on Portugal, Italy, Ireland and Spain. Similarly, South Eastern European countries, particularly Romania and Hungary, are being observed closely. As was the case as at the reporting date of 31 December 2012, Greek exposure does not have any material bearing on the LBBW Group's risk situation.

In view of its relevance for the Bank's credit portfolio, exposure to Portugal, Italy, Ireland and Spain is described below in detail. The following details are based on the IFRS balance sheet values per country and borrower or balance sheet category, and the impairments recognized.

Loans and advances by the LBBW Group to financial institutions, companies and public-sector bodies in these four countries dropped by EUR 4.2 billion over the end of 2012 to EUR 6.7 billion. A large part of this decline is due to public-sector bodies, exposure to which was cut by almost half to EUR 3.7 billion in the first half of 2013. Thus, exposure to public-sector bodies was reduced substantially by 35% to EUR 2.2 billion in Italy, by 59% to EUR 1.1 billion in Spain, and by 62% to EUR 0.3 billion in Portugal.

## Exposure to financial institutions

30 June 2013

| EUR million   | Ireland      | Italy        | Portugal    | Spain          |
|---|--------------|--------------|-------------|----------------|
| Receivables   | 14.5         | 53.6         | 26.8        | 494.7          |
| Allowances for losses on loans and advances <sup>1)</sup>                 | 0.0          | 0.0          | 0.0         | 0.0            |
| Financial instruments measured at fair value through profit or loss (net) | 101.5        | 93.8         | 0.6         | 442.5          |
| Derivatives   | - 115.6      | 35.5         | - 2.0       | - 27.4         |
| Financial investments (AFS)   | 149.9        | 205.4        | 0.0         | 373.6          |
| Revaluation reserve   | 1.6          | 0.6          | 0.0         | 1.7            |
| Cumulative depreciation   | 0.0          | 0.0          | 0.0         | 0.0            |
| Financial investments (LaR)   | 0.0          | 5.0          | 54.6        | 25.8           |
| Cumulative depreciation   | 0.0          | 0.0          | 0.0         | 0.0            |
| <b>Total</b>  | <b>265.9</b> | <b>357.8</b> | <b>82.0</b> | <b>1 336.6</b> |

### Additional CDS information on the above item »derivatives«

|                             |     |       |       |       |
|-----------------------------|-----|-------|-------|-------|
| CDS asset items             | 0.0 | - 7.1 | - 0.8 | - 3.6 |
| CDS liability items         | 0.0 | 18.0  | 0.8   | 3.9   |
| Nominals of CDS assets      | 0.0 | 371.0 | 25.0  | 538.0 |
| Nominals of CDS liabilities | 0.0 | 836.0 | 25.0  | 701.0 |

1) Provisions for losses on loans and advances only include specific valuation allowances.

## Exposure to companies

30 June 2013

| EUR million   | Ireland      | Italy        | Portugal   | Spain        |
|---|--------------|--------------|------------|--------------|
| Receivables   | 116.2        | 175.3        | 5.8        | 569.5        |
| Allowances for losses on loans and advances <sup>1)</sup>                 | 0.0          | 0.0          | 0.0        | - 27.7       |
| Financial instruments measured at fair value through profit or loss (net) | 29.3         | 8.1          | 0.1        | 50.9         |
| Derivatives   | 7.9          | 7.7          | 0.1        | 46.0         |
| Financial investments (AFS)   | 31.5         | 11.1         | 0.0        | 0.0          |
| Revaluation reserve   | 0.2          | 0.0          | 0.0        | 0.0          |
| Cumulative depreciation   | 0.0          | 0.0          | 0.0        | 0.0          |
| Financial investments (LaR)   | 19.3         | 3.3          | 0.0        | 0.0          |
| Cumulative depreciation   | 0.0          | 0.0          | 0.0        | 0.0          |
| <b>Total</b>  | <b>196.3</b> | <b>197.8</b> | <b>5.9</b> | <b>592.7</b> |

### Additional CDS information on the above item »derivatives«

|                             |       |       |      |       |
|-----------------------------|-------|-------|------|-------|
| CDS asset items             | 0.4   | 1.5   | 0.0  | 0.7   |
| CDS liability items         | - 0.4 | - 3.2 | 0.1  | - 0.8 |
| Nominals of CDS assets      | 5.0   | 353.3 | 25.0 | 144.0 |
| Nominals of CDS liabilities | 16.0  | 513.9 | 25.0 | 198.0 |

1) Provisions for losses on loans and advances only include specific valuation allowances.

# Exposure to public sector

30 June 2013

| EUR million   | Ireland     | Italy          | Portugal     | Spain          |
|---|-------------|----------------|--------------|----------------|
| Receivables   | 0.0         | 0.1            | 0.0          | 8.9            |
| Allowances for losses on loans and advances <sup>1)</sup>                 | 0.0         | 0.0            | 0.0          | 0.0            |
| Financial instruments measured at fair value through profit or loss (net) | -0.2        | -31.0          | 5.3          | -19.9          |
| Derivatives   | -0.4        | -31.0          | 5.2          | -62.4          |
| Financial investments (AfS)   | 0.0         | 2 239.4        | 339.2        | 1 144.0        |
| Revaluation reserve   | 0.0         | -481.0         | -56.5        | -146.8         |
| Cumulative depreciation   | 0.0         | 0.0            | 0.0          | 0.0            |
| Financial investments (LaR)   | 0.0         | 0.0            | 0.0          | 0.0            |
| Cumulative depreciation   | 0.0         | 0.0            | 0.0          | 0.0            |
| <b>Total</b>  | <b>-0.2</b> | <b>2 208.5</b> | <b>344.5</b> | <b>1 133.0</b> |
| <b>Additional CDS information on the above item »derivatives«</b>         |             |                |              |                |
| CDS asset items   | -1.7        | -55.4          | -3.8         | -96.9          |
| CDS liability items   | 1.2         | 24.4           | 8.9          | 34.5           |
| Nominals of CDS assets  | 187.5       | 1 616.8        | 74.8         | 1 929.6        |
| Nominals of CDS liabilities   | 184.5       | 1 727.6        | 153.9        | 1 929.5        |

1) Provisions for losses on loans and advances only include specific valuation allowances.

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

### Portfolio quality by sector.

The breakdown of net exposure by sector and rating provides an indication of the extent of business activities and the portfolio quality of the LBBW investments in the individual sectors.

The sector classification in the following table is based on LBBW's internal risk-oriented sector key.

Portfolio by rating and sector

| Net exposure in EUR million   | AAA –<br>BBB   | BB – B+       | B – C        | Other <sup>1)</sup> | Default <sup>2)</sup> | Total<br>30 June<br>2013 | Total<br>31 Dec.<br>2012 |
|-------------------------------|----------------|---------------|--------------|---------------------|-----------------------|--------------------------|--------------------------|
| <b>Financial institutions</b> | <b>121 215</b> | <b>7 191</b>  | <b>513</b>   | <b>434</b>          | <b>409</b>            | <b>129 762</b>           | <b>129 865</b>           |
| Banks                         | 99 582         | 2 458         | 190          | 86                  | 74                    | 102 390                  | 102 397                  |
| Financial service providers   | 21 633         | 4 733         | 323          | 348                 | 336                   | 27 372                   | 27 467                   |
| <b>Companies</b>              | <b>54 074</b>  | <b>16 258</b> | <b>2 736</b> | <b>854</b>          | <b>3 574</b>          | <b>77 497</b>            | <b>81 047</b>            |
| Automotive                    | 7 311          | 2 440         | 133          | 32                  | 314                   | 10 232                   | 10 734                   |
| Construction                  | 3 201          | 1 800         | 407          | 70                  | 373                   | 5 852                    | 5 697                    |
| Commercial real estate (CRE)  | 4 896          | 2 123         | 460          | 107                 | 1 230                 | 8 816                    | 10 377                   |
| Utilities                     | 6 053          | 445           | 95           | 20                  | 33                    | 6 646                    | 6 610                    |
| Housing                       | 2 753          | 820           | 338          | 19                  | 73                    | 4 004                    | 4 442                    |
| Other sectors <sup>3)</sup>   | 29 859         | 8 629         | 1 304        | 605                 | 1 550                 | 41 948                   | 43 187                   |
| <b>Public sector</b>          | <b>48 310</b>  | <b>343</b>    | <b>444</b>   | <b>2</b>            | <b>2</b>              | <b>49 102</b>            | <b>59 089</b>            |
| <b>Private individuals</b>    | <b>4 434</b>   | <b>1 241</b>  | <b>172</b>   | <b>1 131</b>        | <b>198</b>            | <b>7 176</b>             | <b>7 563</b>             |
| <b>Total</b>                  | <b>228 032</b> | <b>25 034</b> | <b>3 865</b> | <b>2 421</b>        | <b>4 183</b>          | <b>263 536</b>           | <b>277 565</b>           |

1) »Other« comprises exposure which has not been classified according to risk, e. g., for risk relevant reasons, and which is performing as planned.

2) »Default« refers to exposure for which a default event as defined in section 125 SolvV has occurred, e. g., 90-day default, improbability of repayment or the recognition of write-downs.  
The exposure is presented before allowances for losses on loans and advances/impairments.

3) »Other sectors« combine company sectors with net exposure of less than EUR 4 billion as at 30 June 2013.

The proportion of exposure to financial institutions with very good to good ratings (AAA to BBB) stood at over 93% and was thus unchanged over 31 December 2012.

In the case of corporate customers, the share of investment-grade ratings widened to 70% (31 December 2012: 67%). Another positive development was the EUR 0.2 billion decline in net exposure to commitments in default to EUR 3.6 billion. The above table sets out separately the sectors accounting for net exposure of more than EUR 4 billion (equivalent to around 5% of the company portfolio) in line with 31 December 2012. As was the case at the end of 2012, automotive and commercial real estate (CRE) were the two most important sectors in the portfolio. For this reason, they are continuing to be monitored closely in the interests of managing sector concentration. Moreover, special attention was paid to the renewable energies sector in line with changed public-sector subsidization policies. The »other sectors« item includes a further 25 sectors which particularly help to diversify the portfolio.

Net exposure to the public sector shrank by 17% or EUR 10 billion over 31 December 2012. Medium and weaker ratings were affected by this trend to a disproportionately strong extent: Net exposure to these names was reduced by just under 39% to EUR 0.3 billion (BB–B+ rating cluster) and by 57% to EUR 0.4 billion (B–C rating cluster).

#### Size classes.

The following breakdown by size class is based on the customer level or, where applicable, the borrower unit level.

#### Size classes

| Net exposure in %     | Number<br>30 June 2013 | Share<br>30 June 2013 | Number<br>31 Dec. 2012 | Share<br>31 Dec. 2012 |
|-----------------------|------------------------|-----------------------|------------------------|-----------------------|
| up to EUR 10 million  | 737 210                | 11.0%                 | 746 662                | 10.8%                 |
| up to EUR 50 million  | 1 413                  | 12.2%                 | 1 444                  | 11.7%                 |
| up to EUR 100 million | 219                    | 6.0%                  | 218                    | 5.6%                  |
| up to EUR 500 million | 255                    | 21.1%                 | 274                    | 21.5%                 |
| up to EUR 1 billion   | 53                     | 14.8%                 | 60                     | 15.5%                 |
| over EUR 1 billion    | 40                     | 34.9%                 | 38                     | 34.9%                 |
| <b>Total</b>          | <b>739 190</b>         | <b>100%</b>           | <b>748 696</b>         | <b>100%</b>           |

29% of the portfolio is accounted for by size classes of up to EUR 100 million net exposure. This includes corporate and retail customers in particular.

The two size classes – EUR 100 to 500 million and EUR 500 million to EUR 1 billion – contributed a combined 35.9% to total net exposure and are both dominated (over 92% in either case) by very good to good ratings (AAA to BBB).

The proportion of the portfolio in the > EUR 1 billion size class accounted for 34.9% of total net exposure and was thus unchanged over the end of the previous year. In absolute terms, net exposure in this size class dropped by around EUR 4.5 billion. In this size class, Landesbanken and savings banks (of which more than two-thirds are subject to guarantor's liability) account for 34% of net exposure and public-sector bodies (particularly domestic non-central public-sector entities) for a further 36%. The remaining 30% is spread across banks, financial services providers and companies almost all of which have a very good to good credit rating. A further reduction in the share in the overall portfolio of the size class with net exposure of > EUR 1 billion will be achieved by means of the successive disposal of individual large exposures.

## Market price risks.

In the first half of 2013, the LBBW Group's exposure to market price risks receded substantially.

The following table breaks down VaR (99%/10 days) by risk type at the level of the LBBW Group; items under the owners' risk shield are not included:

VaR 99%/10 days

| EUR million         | Average    | Maximum    | Minimum    | 28 June 2013 | 28 Dec. 2012 |
|---------------------|------------|------------|------------|--------------|--------------|
| <b>LBBW Group</b>   | <b>317</b> | <b>397</b> | <b>230</b> | <b>231</b>   | <b>381</b>   |
| Interest rate risks | 313        | 386        | 226        | 229          | 372          |
| Equity risks        | 6          | 12         | 3          | 5            | 8            |
| Currency risks      | 6          | 19         | 2          | 4            | 16           |

The decline in risk is mainly due to the reduction of positions in the credit investment portfolio. In the first half of 2013, ABS holdings were reduced by EUR 1.2 billion, and sovereign holdings (particularly Spain, Italy and Portugal) were reduced by EUR 3.5 billion. Additionally, a decrease in volatility also resulted in lower risk in the first few months.

The drop in the VaR contribution for FX positions is due to improved risk mapping.

The Group VaR depicted in the table forms the basis for scaling risk against economic capital with a confidence level of 99.93% and a holding period of 1 year. In the first half of 2013, the calculation of economic capital was modified in the light of regulatory requirements with the result that risk calculations are now based on a longer observation period in order to factor in more volatile market periods. Furthermore, a markup for spread risks arising from marketable credit business is incorporated.

Backtesting of the internal risk model for the previous 250 trading days for the LBBW Group's strategic bank-book and trading-book positions showed only a small number of outliers (substantially below the regulatory threshold). Outliers are particularly due to specific risks which are not quantified by using a model approved by the regulatory authorities.

The internal risk model for calculating LBBW's exposure to market price risks is approved by the regulatory authorities for equity risks as well as for general interest rate risks in the trading-book without funds. The risks identified this way are weighted and applied towards capital backing requirements. As at the reporting date, backtesting recorded one outlier in this portfolio resulting from a technical problem in the market data delivery. In line with regulatory requirements, further backtesting is performed on the basis of dirty-P/L<sup>1)</sup>. This yielded one outlier as at the reporting date arising from an aperiodic adjustment in the P/L calculation.

<sup>1)</sup> Dirty-P/L is the actual change in value net of commissions and fees.

Changes in portfolio values arising from the stress scenarios dropped significantly in the first half of 2013. This is mainly due to the position reduction in the credit investment portfolio. Scenarios simulating an increase in spreads on government and financial bonds are the most important ones in stress testing.

The market price risk for the trading book held by LBBW (Bank) is illustrated in the following table:

VaR 99%/10 days

| EUR million                   | Average   | Maximum   | Minimum   | 28 June 2013 | 28 Dec. 2012 |
|-------------------------------|-----------|-----------|-----------|--------------|--------------|
| <b>LBBW trading positions</b> | <b>49</b> | <b>58</b> | <b>35</b> | <b>38</b>    | <b>53</b>    |
| Interest rate risks           | 46        | 53        | 32        | 35           | 52           |
| Equity risks                  | 5         | 8         | 2         | 6            | 3            |
| Currency risks                | 4         | 8         | 1         | 4            | 2            |

An analysis of the trading book risks shows that the risk impact of the currently uncertain markets is fairly small. This is a result of the limited credit spread exposure comprised in interest rate risks.

## Liquidity risks.

### Risk situation.

The LBBW Group continued to dispose of ample liquidity at all times in the first half of 2013.

The following factors among others contributed to the good liquidity situation:

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

The LBBW Group's funding requirements for the existing business portfolio for a three-month period stood at EUR 10.5 billion as at 28 June 2013. Additional potential requirements of EUR 8.6 billion to cover any call risks were identified. This was offset by free collateral of EUR 26.8 billion eligible for Eurosystem operations.

Funding requirements for the business portfolio amounted to EUR 5.6 billion over a twelve-month period and the call risks were quantified at EUR 15.9 billion. Available liquidity reserves, taking into account the overcollateralization from the cover registers that is not required to maintain the covered bond rating, came to EUR 38.3 billion.



#### Overview of funding requirement and liquidity reserves

| EUR billion as at 28 June 2013  | 3 months | 12 months |
|---|----------|-----------|
| Funding requirement from the business portfolio (deterministic cash flow) | 10.5     | 5.6       |
| Material call risks (stochastic cash flow)                                | 8.6      | 15.9      |
| Free liquidity reserves   | 26.8     | 38.3      |

The solvency of LBBW Group was guaranteed at all times for a three-month period even on the basis of severe stress scenarios. Thus, the »rating downgrade«, »financial market crisis« and »market crisis with a downgrade« liquidity risk stress scenarios structured in accordance with the guidelines of MaRisk (BTR 3.2) show that the remaining funding potential via the market plus free liquidity reserves substantially exceeds possible funding requirements under stress conditions for this period.

#### Results of the economic stress scenarios

| Scenario                       | Funding requirement | Funding potential (central banks and market) |
|--------------------------------|---------------------|--|
| EUR billion as at 28 June 2013 |                     |  |
| Rating downgrade               | 27                  | 42   |
| Financial market crisis        | 25                  | 42   |
| Market crisis with downgrade   | 26                  | 41   |

All limits and other requirements in connection with liquidity risk tolerance were observed at all times in the first half of 2013. 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 the first half of 2013.

The requirements of the standard approach of the Liquidity Regulation (Liquiditätsverordnung) were at all times exceeded significantly in the period under review. As at 30 June 2013, the liquidity ratio for LBBW (Bank) was 1.45 (31 December 2012: 1.64). There is no corresponding indicator at the Group level as this indicator is disclosed to the regulatory authorities at a single-entity level.

## Operational risks.

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. This definition also includes legal risks.

Following new recent decisions at higher and supreme court level, various banks have been exposed to sizeable legal risks in connection with customer transactions involving complex derivatives. LBBW could not shield itself from these matters either. Most of these legal risks at LBBW originate from the portfolios of former Sachsen LB. LBBW's Board of Managing Directors therefore ordered a legal portfolio analysis to be carried out as well as ongoing development of the risk processes, also in view of current consumer law developments. On the basis of current knowledge, sufficient precautions have been taken to cover these risks, although this will depend on future trends in court rulings and the outcome of legal disputes.

Furthermore, the software used by LBBW to manage operational risks has been enhanced.

## Further risks.

Pension risks entail the possible need to increase provisions for pensions on account of heightened pension expense, and in particular, valuation effects. This may particularly be caused by changes in interest rates, pensions and salaries. Pension risks are calculated on the basis of sensitivities. In the relevant period for the calculation of sensitivities (2012), interest rates were generally a good deal lower and this is reflected in the reduced interest rate applied in accordance with IFRS. The result was a substantial increase in sensitivities and, hence, pension risks.

The decline in the real estate development risk is chiefly due to the completion of and progress made with projects.

With respect to the other material risks, namely

- Investment risks
- Reputation risks
- Business risks
- Real estate risks

the statements made in the risk report contained in the LBBW Group's annual report for 2012 continue to apply. There were no material changes in the first half of 2013.

# Outlook.

## Anticipated economic performance.

The global economy will expand in 2013 at roughly the same rate as in the previous year. In fact, the International Monetary Fund (IMF) assumes that at 3.1 % GDP growth will be unchanged over 2012, underpinned in particular by the developing and emerging markets. According to IMF forecasts, GDP in these countries will grow by 5.0%. Conditions in the eurozone, where the IMF expects GDP to contract by 0.6% in 2013, are exerting pressure. This figure is in fact somewhat more pessimistic than LBBW's estimate, which assumes a decline of 0.3%.

The eurozone is continuing to suffer from the effects of the EMU debt crisis. For one thing, the periphery countries are still consolidating their public-sector debt, something which is dragging down their economies. For another, capital spending in the periphery countries is coming under pressure from lending restraint on the part of commercial banks. The outlook for Germany is somewhat better than for the eurozone as a whole. Given the strong competitiveness of German industry, exports should benefit from growth in the emerging markets notwithstanding the heightened risks arising from the more muted growth which the IMF projects for the emerging markets. Moreover, consumer spending should also make a positive contribution to growth in 2013 as a whole thanks to the robust conditions in the job market. All in all, LBBW expects GDP adjusted for calendar effects to expand by a real 0.6% over the previous year.

Outside Europe, economic growth in the United States should gain momentum in the second half of 2013. Domestic consumer demand is being spurred by a reduction in excess supply in the housing market, a substantial improvement in household debt levels, thus opening up potential for consumer spending, as well as less restrictive lending by banks to the corporate sector, prompting LBBW to forecast GDP growth of 2% in 2013. In China, the period of high GDP growth rates should continue for now. Although the growth of 7.0% expected for 2013 will fall short of the previous year (+ 7.8%), as a heavily export-oriented country, China stands to be one of the main beneficiaries of the robust global economy in general and the improved outlook for the United States in particular.

Inflation will remain benign in 2013. Companies are still likely to have only limited scope for increasing their sell-side prices. This particularly applies to the eurozone, which will probably continue to labor under surplus industrial capacity. At the moment, risks of rising consumer prices are most likely to come from oil, which reached its highest price (approximately USD 107 per barrel for North Sea Brent) since early April at the beginning of July in the wake of the unrest in Egypt. However, there are no particular inflation risks for Germany in sight at the moment either. Although employees are in a strong bargaining position given the moderate unemployment rate of 6.8%, LBBW does not expect the salary settlements reached in the upcoming negotiations to pose any risks to stability. Inflation should come to 1.5% in Germany and 1.6% in the eurozone in 2013.

## Industry and competitive situation.

The German banking sector is likely to continue facing difficult conditions. The macroeconomic environment, the still lingering debt and confidence crisis in the eurozone, low interest rates and increasingly stringent and broad-based regulatory requirements are posing persistent challenges for banks.

The situation in the financial markets has stabilized to some degree since summer 2012. However, uncertainty continues to prevail, resulting in continued risks for the sector. It is safe to assume that deposit-taking business and equity investment by banks will remain under pressure as a result of the historically low interest rates. The negative effect of the phase of economic weakness on business and earnings could gradually subside as the macroeconomic outlook for Germany brightens. That said, LBBW assumes that the high volume of liquidity held by some companies will place strain on banks' lending business. The German market's relative strength should continue to buoy the sector. In addition, many banks have successfully completed deleveraging exercises and improved their equity resources over the last few years. Funding conditions in the sector have improved with the stabilization of the financial markets and many banks' reduced reliance on wholesale funding. Even so, competition looks set to remain intense for banks in both lending and deposit-taking business.

Looking ahead over the next few years, adjustments to new regulatory requirements will continue to pose challenges for banks, tie up resources and cause costs to rise. The overall implications of the new regulatory framework for the sector cannot be estimated as final decisions and interpretation guidance as well as details of the reciprocal impact of the individual measures are still being awaited for a large number of the planned new regulatory requirements.

The »banking union« planned at the European level is making slow progress. That said, joint European oversight under the roof of the European Central Bank (ECB) is not likely to commence before autumn 2014. At the same time, the analysis of banks' financial accounts planned by the ECB ahead of banking union could trigger nervousness in the markets. The European Banking Authority (EBA) has announced that it will not be performing a stress test in 2013.

The main elements of the planned joint resolution regime for banks are now coming into relief. They provide for a clear cascade of liability, which will presumably include not only owners but also holders of unsecured bonds and depositors with a balance of more than EUR 100 000, as well as national resolution funds, which must be financed by the banks. Germany has already created the basis for this with the establishment of the restructuring fund, which is being financed by the bank levy. These arrangements could make it more expensive for banks to raise capital, thus putting them at a competitive disadvantage over their non-European peers. A resolution is to be passed this year, after which ratification in national law will be necessary. For this reason, many of the details of the specific implementation of these rules are still unclear.

In the past few months, no progress had been made at the European level on deposit guarantee schemes. Accordingly, there is still some uncertainty surrounding the amendments required to the existing rules for resolution and deposit guarantee systems in Germany.

Similarly, European debate on the form which will be taken by the tax on financial transactions, which is also planned in Germany, is still ongoing. If the market for secured money market transactions is included in these plans in line with the EU Commission's current plans, this will cause a substantial increase in banks' funding costs. As the tax is only to be levied as a result of closer cooperation and hence, in this case, initially only in 11 EU member countries, competitive distortion is likely.

Given interpretation uncertainties, the ramifications of Germany's Bank Separation Act, which has since been passed by the Bundestag and provides for large banks to segregate high-risk non-client-oriented trading transactions by 1 July 2015, are unclear at this stage. Furthermore, it is not possible to determine the extent to which the German legislation may have to be amended to accommodate the results of deliberations at the European level.

On the other hand, Germany is likely to put Basel III, for whose extensive capital, liquidity and governance rules banks have been preparing for a long time, into effect on 1 January 2014.

The European Market Infrastructure Regulation (EMIR) and ongoing revisions to the Markets in Financial Instruments Directive (MiFID) are key developments affecting securities trading. In addition, further initiatives for consumer rights legislation are being discussed at a European and – ahead of the German federal elections this autumn – particularly at a national level. This is joined by risks and uncertainty in connection with court rulings.

Against this backdrop, the banking sector looks set to see a continuation of the consolidation process. In addition to cost management, banks' main focus will be on systematic capital and risk management in response to Basel III. At the same time, regulation and levies are likely to exert pressure on banks' profitability, making it more difficult for them to strengthen their equity using their own resources. In this connection, it must also be said that the slow progress being made in regulating the shadow bank sector is additionally placing banks at a disadvantage.

## LBBW Group's business strategy, opportunities, and risks.

Given this sector environment characterized by persistent uncertainty, LBBW with its orientation towards customer-oriented core business is continuing to strive for sustained customer relations with a focus on sound products. It remains committed to its goal of being one of the top three customer banks in Germany and steadily fortifying its status as the »main bank for mid-sized companies«.

The LBBW Group has implemented most of the measures defined within the EU procedure and has in fact over-fulfilled some of the requirements. The few remaining outstanding commitments are being addressed conscientiously and systematically. Accordingly, the LBBW Group is seeking to fully wind down the portfolio of activities defined as being outside its core business and has been proceeding

substantially more quickly than planned over the past few years as well as in the current year. At the same time, controlled and sustained growth is to be generated in the Bank's core business. All told, a further reduction in total assets compared with the end of the previous year is expected by the end of 2013.

LBBW assumes that the situation in the international financial markets will not stabilize in the second half of the year but will continue to be characterized by high uncertainty and considerable risks. Despite the persistent challenges facing the financial services industry – particularly the continuation of low interest rates for the foreseeable future – the LBBW Group expects to be able to post an overall substantially positive consolidated net profit in 2013 barring any unforeseen market turbulence or an unexpectedly sharp slump in the economy.

Despite the problems facing the periphery countries, Germany should remain on a growth trajectory, although its momentum is likely to slow considerably. This and the partially heavy liquidity held by companies could place a damper on demand for finance, which in turn would impact LBBW's operating business. Despite this, the LBBW Group expects its operating segments to make a positive full-year contribution to earnings in 2013, although they are likely to be down on the previous year.

In the Credit Investment segment, the LBBW Group will be continuing efforts to wind down its capital market-oriented credit substitute business (securities including ABS and credit derivatives). In order to reduce risk, losses were deliberately sustained on the sale of foreign securities and this will exert pressure on full-year earnings in 2013.

Following the conversion effective 1 January 2013 of the silent partners' contributions held by the owners, the LBBW Group has already been able to substantially improve the quality of its equity. Consequently, it is assumed that the common equity ratio as defined by current regulatory law will be substantially up on the 2012 figure at the end of 2013. For this reason, LBBW considers itself to be well-positioned to implement the new Basel III requirements step by step from 2014.

Using the profit recorded in 2012, LBBW (Bank) has been able to catch up on part of the coupon payments which had been omitted in earlier years on hybrid capital. Given the aforementioned underlying conditions, it is expected that the remaining outstanding coupon payments will be completed in 2014 at the latest in accordance with the terms of the respective contract.

The LBBW Group is exposed to various risks and planning uncertainty. Thus, the still lingering debt crisis in the eurozone could trigger turbulence in the financial markets and adversely affect the LBBW Group. Moreover, the persistent environment of low interest rates poses a risk to the Group's income.

Similarly, the phase of economic weakness could continue and increasingly also impact the LBBW Group's core markets and customers. This could exert pressure on customer demand and exert pressure on income in tandem with increased allowances for losses on loans and advances within the LBBW Group.

A particular challenge arises from the numerous regulatory changes, many of which are still being negotiated, which will mostly not be taking effect until after 2013 and whose overall impact is not yet entirely foreseeable. LBBW is observing current developments carefully and making appropriate preparations. The LBBW Group is taking sufficient precautions to ensure that the new requirements can be satisfied. Accordingly, it is currently preparing for the implementation of the minimum requirements for restructuring plans by the end of 2013. LBBW considers itself to be well-prepared for the introduction of Basel III effective 1 January 2014. These as well as other regulatory requirements currently under discussion could involve considerable new strain for the LBBW Group.

Opportunities may arise from a resolution of the debt crisis in the eurozone. Similarly, a recovery in the global economy in general and specifically in the core markets addressed by the LBBW Group could unleash positive effects. In this case, private and corporate customer confidence could be strengthened and this in turn would spur demand, resulting in heightened income for the LBBW Group together with reduced requirements for allowances for losses on loans and advances.

LBBW considers itself to be well-positioned to address the challenges currently facing the banking sector thanks to its customer-oriented and sustainable business model. Looking forward, LBBW will continue to assist its customers as an efficient business partner and provide its support on all questions relating to banking business.

# Consolidated interim financial statements as at 30 June 2013.

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## Condensed income statement for the period 1 January to 30 June 2013.

|   |       | 1 Jan. – 30 June 2013 | 1 Jan. – 30 June 2012 |
|---|-------|-----------------------|-----------------------|
|   | Notes | EUR million           | EUR million           |
| Net interest income   | 4     | 933                   | 1 248                 |
| Allowances for losses on loans and advances   | 5     | - 137                 | - 91                  |
| Net fee and commission income   | 6     | 266                   | 247                   |
| Net gains/losses from financial instruments measured at fair value through profit or loss | 7     | 187                   | - 176                 |
| Net gains/losses from financial investments   | 8     | - 26                  | - 30                  |
| Net income/expenses from investments accounted for using the equity method                | 9     | 1                     | 9                     |
| Other operating income/expenses   | 10    | - 5                   | 5                     |
| Net income/expenses from investment property  | 11    | 13                    | 33                    |
| Administrative expenses   | 12    | - 816                 | - 893                 |
| Guarantee commission for the State of Baden-Württemberg                                   |       | - 154                 | - 151                 |
| Impairment of goodwill  |       | - 2                   | 0                     |
| Net income/expenses from restructuring  |       | 0                     | - 7                   |
| <b>Net consolidated profit/loss before tax</b>  |       | <b>260</b>            | <b>194</b>            |
| Income tax  | 13    | - 84                  | - 29                  |
| <b>Net consolidated profit/loss</b>   |       | <b>176</b>            | <b>165</b>            |
| of which attributable to non-controlling interests after tax                              |       | - 4                   | - 1                   |
| of which attributable to shareholders after tax   |       | 180                   | 166                   |

## Total comprehensive income for the period 1 January to 30 June 2013.

|  | Notes | 1 Jan. – 30 June 2013<br>EUR million | 1 Jan. – 30 June 2012<br>EUR million |
|--|-------|--------------------------------------|--------------------------------------|
| <b>Net consolidated profit/loss</b>  |       | <b>176</b>                           | <b>165</b>                           |
| <b>Other income</b>  |       |                                      |                                      |
| <b>Items that will not be reclassified subsequently to profit or loss</b>                              |       |                                      |                                      |
| Retained earnings  |       |                                      |                                      |
| Actuarial gains/losses before tax  | 30    | 84                                   | -209                                 |
| Income tax   | 13    | -25                                  | 63                                   |
| <b>Items that will be reclassified subsequently to profit or loss when specific conditions are met</b> |       |                                      |                                      |
| Revaluation reserve  |       |                                      |                                      |
| Gains/losses on financial assets (AFS) before tax  | 33    | 448                                  | 394                                  |
| Transferred to the income statement  |       | -69                                  | -13                                  |
| Income tax   | 13    | -89                                  | -86                                  |
| Measurement gains/losses from investments accounted for using the equity method                        |       |                                      |                                      |
| Changes before tax   | 33    | -4                                   | -1                                   |
| Measurement gains/losses from cash flow hedges   |       |                                      |                                      |
| Changes in fair value before tax   | 33    | 3                                    | -1                                   |
| Income tax   | 13    | -1                                   | 0                                    |
| Currency translation differences   |       |                                      |                                      |
| Changes before tax   | 33    | -2                                   | 2                                    |
| <b>Total other income</b>  |       | <b>345</b>                           | <b>149</b>                           |
| of which non-current assets held for sale and disposal groups  |       | -2                                   | -2                                   |
| <b>Net consolidated total comprehensive income</b>   |       | <b>521</b>                           | <b>314</b>                           |
| of which attributable to non-controlling interests after tax   |       | -4                                   | -1                                   |
| of which attributable to shareholders after tax  |       | 525                                  | 315                                  |

## Balance sheet

as at 30 June 2013.

| Assets   | Notes | 30 June 2013   | 31 Dec. 2012   |
|--|-------|----------------|----------------|
|  |       | EUR million    | EUR million    |
| Cash and cash equivalents                                      | 14    | 6 005          | 2 909          |
| Loans and advances to banks                                    | 15    | 52 578         | 50 066         |
| Loans and advances to customers                                | 16    | 112 569        | 117 170        |
| Allowances for losses on loans and advances                    | 17    | - 2 240        | - 2 505        |
| Financial assets measured at fair value through profit or loss | 18    | 85 968         | 110 464        |
| Financial investments  | 19    | 46 004         | 52 771         |
| Shares in investments accounted for using the equity method    | 20    | 293            | 303            |
| Portfolio hedge adjustment attributable to assets              |       | 460            | 580            |
| Non-current assets held for sale and disposal groups           | 21    | 1 252          | 23             |
| Intangible assets  | 22    | 483            | 502            |
| Investment property  | 23    | 510            | 516            |
| Property and equipment   | 24    | 635            | 710            |
| Current income tax assets                                      |       | 188            | 182            |
| Deferred income tax assets                                     |       | 1 148          | 1 271          |
| Other assets   | 25    | 954            | 1 364          |
| <b>Total assets</b>  |       | <b>306 807</b> | <b>336 326</b> |

| Equity and liabilities  | Notes     | 30 June 2013   | 31 Dec. 2012   |
|---|-----------|----------------|----------------|
|   |           | EUR million    | EUR million    |
| Deposits from banks   | 26        | 66 833         | 64 236         |
| Deposits from customers   | 27        | 81 253         | 85 332         |
| Securitized liabilities   | 28        | 55 906         | 61 589         |
| Financial liabilities measured at fair value through profit or loss | 29        | 76 229         | 99 732         |
| Portfolio hedge adjustment attributable to liabilities              |           | 829            | 1 199          |
| Provisions  | 30        | 3 230          | 3 133          |
| Liabilities from disposal groups                                    | 21        | 1 010          | 0              |
| Current income tax liabilities                                      |           | 260            | 200            |
| Deferred income tax liabilities                                     |           | 167            | 170            |
| Other liabilities   | 31        | 1 214          | 698            |
| Subordinated capital  | 32        | 6 813          | 9 715          |
| <b>Equity</b>   | <b>33</b> | <b>13 063</b>  | <b>10 322</b>  |
| Share capital   |           | 3 484          | 2 584          |
| Capital reserve   |           | 8 240          | 6 910          |
| Retained earnings   |           | 1 219          | 771            |
| Other income  |           | - 77           | - 363          |
| Unappropriated profit/loss  |           | 180            | 399            |
| <b>Equity attributable to shareholders</b>                          |           | <b>13 046</b>  | <b>10 301</b>  |
| Equity attributable to non-controlling interests                    |           | 17             | 21             |
| <b>Total equity and liabilities</b>                                 |           | <b>306 807</b> | <b>336 326</b> |

# Statement of changes in equity

for the period 1 January to 30 June 2013.

| EUR million  | Share capital | Capital reserve | Retained earnings | 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 | Equity attributable to shareholders | Equity attributable to non-controlling interests | Total         |
|--|---------------|-----------------|-------------------|---------------------|---|--|------------------------------|----------------------------|-------------------------------------|--|---------------|
| Equity as at 31 December 2011                                | 2 584         | 6 910           | 1 067             | -1 279              | 139   | 1  | -8                           | 88                         | 9 502                               | 19   | 9 521         |
| Restatement of prior year amounts                            | 0             | 0               | 0                 | 0                   | 0   | 0  | 0                            | -21                        | -21                                 | 0  | -21           |
| <b>Equity as at 1 January 2012</b>                           | <b>2 584</b>  | <b>6 910</b>    | <b>1 067</b>      | <b>-1 279</b>       | <b>139</b>  | <b>1</b>                                       | <b>-8</b>                    | <b>67</b>                  | <b>9 481</b>                        | <b>19</b>  | <b>9 500</b>  |
| Allocation to retained earnings                              | 0             | 0               | 67                | 0                   | 0   | 0  | 0                            | -67                        | 0                                   | 0  | 0             |
| Actuarial gains/losses                                       | 0             | 0               | -146              | 0                   | 0   | 0  | 0                            | 0                          | -146                                | 0  | -146          |
| Changes in financial instruments (AFS)                       | 0             | 0               | 0                 | 295                 | 0   | 0  | 0                            | 0                          | 295                                 | 0  | 295           |
| Changes in investments accounted for using the equity method | 0             | 0               | -2                | 0                   | 1   | 0  | 0                            | 0                          | -1                                  | 0  | -1            |
| Changes from the measurement of cash flow hedges             | 0             | 0               | 0                 | 0                   | 0   | -1   | 0                            | 0                          | -1                                  | 0  | -1            |
| Currency translation differences                             | 0             | 0               | 0                 | 0                   | 0   | 0  | 2                            | 0                          | 2                                   | 0  | 2             |
| <b>Other income</b>  | <b>0</b>      | <b>0</b>        | <b>-148</b>       | <b>295</b>          | <b>1</b>  | <b>-1</b>                                      | <b>2</b>                     | <b>0</b>                   | <b>149</b>                          | <b>0</b>   | <b>149</b>    |
| Net consolidated profit/loss                                 | 0             | 0               | 0                 | 0                   | 0   | 0  | 0                            | 166                        | 166                                 | -1   | 165           |
| <b>Net consolidated total comprehensive income</b>           | <b>0</b>      | <b>0</b>        | <b>-148</b>       | <b>295</b>          | <b>1</b>  | <b>-1</b>                                      | <b>2</b>                     | <b>166</b>                 | <b>315</b>                          | <b>-1</b>  | <b>314</b>    |
| Other changes in equity                                      | 0             | 0               | 0                 | 0                   | 0   | 0  | 0                            | 0                          | 0                                   | 1  | 1             |
| <b>Equity as at 30 June 2012</b>                             | <b>2 584</b>  | <b>6 910</b>    | <b>986</b>        | <b>-984</b>         | <b>140</b>  | <b>0</b>                                       | <b>-6</b>                    | <b>166</b>                 | <b>9 796</b>                        | <b>19</b>  | <b>9 815</b>  |
| Actuarial gains/losses                                       | 0             | 0               | -210              | 0                   | 0   | 0  | 0                            | 0                          | -210                                | 0  | -210          |
| Changes in financial instruments (AFS)                       | 0             | 0               | 0                 | 522                 | 0   | 0  | 0                            | 0                          | 522                                 | 0  | 522           |
| Changes in investments accounted for using the equity method | 0             | 0               | 0                 | 0                   | -34   | 0  | 0                            | 0                          | -34                                 | 0  | -34           |
| Changes from the measurement of cash flow hedges             | 0             | 0               | 0                 | 0                   | 0   | -3   | 0                            | 0                          | -3                                  | 0  | -3            |
| Currency translation differences                             | 0             | 0               | 0                 | 0                   | 0   | 0  | 2                            | 0                          | 2                                   | 0  | 2             |
| <b>Other income</b>  | <b>0</b>      | <b>0</b>        | <b>-210</b>       | <b>522</b>          | <b>-34</b>  | <b>-3</b>                                      | <b>2</b>                     | <b>0</b>                   | <b>277</b>                          | <b>0</b>   | <b>277</b>    |
| Net consolidated profit/loss                                 | 0             | 0               | 0                 | 0                   | 0   | 0  | 0                            | 233                        | 233                                 | 0  | 233           |
| <b>Net consolidated total comprehensive income</b>           | <b>0</b>      | <b>0</b>        | <b>-210</b>       | <b>522</b>          | <b>-34</b>  | <b>-3</b>                                      | <b>2</b>                     | <b>233</b>                 | <b>510</b>                          | <b>0</b>   | <b>510</b>    |
| Other changes in equity                                      | 0             | 0               | -5                | 0                   | 0   | 0  | 0                            | 0                          | -5                                  | 2  | -3            |
| <b>Equity as at 1 January 2013</b>                           | <b>2 584</b>  | <b>6 910</b>    | <b>771</b>        | <b>-462</b>         | <b>106</b>  | <b>-3</b>                                      | <b>-4</b>                    | <b>399</b>                 | <b>10 301</b>                       | <b>21</b>  | <b>10 322</b> |
| Allocation to retained earnings                              | 0             | 0               | 399               | 0                   | 0   | 0  | 0                            | -399                       | 0                                   | 0  | 0             |
| Capital increase/capital reduction                           | 900           | 1 330           | 0                 | 0                   | 0   | 0  | 0                            | 0                          | 2 230                               | 0  | 2 230         |
| Actuarial gains/losses                                       | 0             | 0               | 59                | 0                   | 0   | 0  | 0                            | 0                          | 59                                  | 0  | 59            |
| Changes in financial instruments (AFS)                       | 0             | 0               | 0                 | 290                 | 0   | 0  | 0                            | 0                          | 290                                 | 0  | 290           |
| Changes in investments accounted for using the equity method | 0             | 0               | 0                 | 0                   | -4  | 0  | 0                            | 0                          | -4                                  | 0  | -4            |
| Changes from the measurement of cash flow hedges             | 0             | 0               | 0                 | 0                   | 0   | 2  | 0                            | 0                          | 2                                   | 0  | 2             |
| Currency translation differences                             | 0             | 0               | 0                 | 0                   | 0   | 0  | -2                           | 0                          | -2                                  | 0  | -2            |
| <b>Other income</b>  | <b>0</b>      | <b>0</b>        | <b>59</b>         | <b>290</b>          | <b>-4</b>   | <b>2</b>                                       | <b>-2</b>                    | <b>0</b>                   | <b>345</b>                          | <b>0</b>   | <b>345</b>    |
| Net consolidated profit/loss                                 | 0             | 0               | 0                 | 0                   | 0   | 0  | 0                            | 180                        | 180                                 | -4   | 176           |
| <b>Net consolidated total comprehensive income</b>           | <b>0</b>      | <b>0</b>        | <b>59</b>         | <b>290</b>          | <b>-4</b>   | <b>2</b>                                       | <b>-2</b>                    | <b>180</b>                 | <b>525</b>                          | <b>-4</b>  | <b>521</b>    |
| Other changes in equity                                      | 0             | 0               | -10               | 0                   | 0   | 0  | 0                            | 0                          | -10                                 | 0  | -10           |
| <b>Equity as at 30 June 2013</b>                             | <b>3 484</b>  | <b>8 240</b>    | <b>1 219</b>      | <b>-172</b>         | <b>102</b>  | <b>-1</b>                                      | <b>-6</b>                    | <b>180</b>                 | <b>13 046</b>                       | <b>17</b>  | <b>13 063</b> |

## Condensed cash flow statement for the period 1 January to 30 June 2013.

|   | 1 Jan. - 30 June 2013 | 1 Jan. - 30 June 2012 |
|---|-----------------------|-----------------------|
|   | EUR million           | EUR million           |
| <b>Cash and cash equivalents at the beginning of the period</b> | <b>2 909</b>          | <b>5 848</b>          |
| Cash flow from operating activities                             | 3 684                 | - 1 683               |
| Cash flow from investing activities                             | - 4                   | 35                    |
| Cash flow from financing activities                             | - 584                 | - 1 094               |
| <b>Cash and cash equivalents at the end of the period</b>       | <b>6 005</b>          | <b>3 106</b>          |

# Selected notes to the consolidated interim financial statements for the first half of the 2013 financial year.

## Basis of group accounting.

Landesbank 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 interim financial statements of LBBW as at 30 June 2013 were prepared in accordance with Section 37w of the Securities Trading Act (Wertpapierhandelsgesetz – WpHG) in conjunction with Section 37y No. 2 of the Securities Trading Act pursuant to the International Financial Reporting Standards (IFRS) and their interpretations (SIC, IFRIC) as they are applied in the European Union, and the applicable provisions of the Handelsgesetzbuch (HGB – German Commercial Code) in accordance with Section 315a (1) HGB. 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. In particular, the requirements set out in IAS 34 Interim Financial Reporting were taken into account.

## Accounting policies.

### 1. Accounting principles.

In accordance with IAS 34.8, the consolidated interim financial statements as at 30 June 2013 do not contain all information and disclosures which are required for the consolidated financial statements and should therefore be read in conjunction with the consolidated financial statements as at 31 December 2012.

As a matter of principle, the same group-wide accounting and valuation methods are applied as those used in the consolidated financial statements as at 31 December 2012. Further main accounting and valuation principles as well as the key areas in which discretion has been exercised by management and applied in the preparation of these consolidated interim financial statements, are explained in general in Notes 1 to 2. Notes on the scope of consolidation, segment reporting, and the individual items of the income statement and the balance sheet can be found in Notes 3 to 33, and notes on financial instruments, other disclosures and supplementary information according to Section 315a HGB are illustrated in Notes 34 to 45.

The accounting and valuation methods described were applied uniformly and consistently to the reporting periods shown, unless stated otherwise. All fully consolidated companies and investments accounted for using the equity method have prepared their interim financial statements as at the reporting date of 30 June 2013.

The reporting currency is the Euro (EUR). The amounts reported in the balance sheet and the income statement 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.

## 2. Changes and estimates.

### IFRS applied for the first time.

In the first half of 2013 the following new or revised IFRS were applied for the first time:

- Presentation of Items of Other Comprehensive Income (Amendments to IAS 1),
- IAS 19 Employee Benefits,
- Annual Improvements to IFRSs (2009 – 2011 cycle) and
- IFRS 13 Fair Value Measurement.

In the course of applying IFRS 13 for the first time, the fair value measurement was reviewed and the following presentation adjusted: Legal risks arising from transactions with derivatives are now included as provisions and no longer factored in as a valuation adjustment in the fair value of the derivative. The first-time application of all the aforementioned guidelines and the changes in presentation had no material impact on the presentation of the net assets, financial position and results of operations of the Group.

In addition, the classification was revised in the course of the first-time recognition of IFRS 13:

| Assets  |
|---|
| Trading assets  |
| Derivatives   |
| Equity instruments                                    |
| Securities  |
| Receivables   |
| Financial assets designated at fair value             |
| Derivatives   |
| Equity instruments                                    |
| Securities  |
| Receivables   |
| Positive fair values from hedging derivatives         |
| Interest rate derivatives                             |
| Cross-currency interest rate swaps                    |
| Financial investments (AfS)                           |
| Equity instruments                                    |
| Securities  |
| Receivables   |
| Non-current assets held for sale and disposal groups* |
| Investment property                                   |
| Assets carried at amortized cost                      |
| Loans and advances to banks                           |
| Loans and advances to customers                       |
| of which finance leases                               |
| Financial investments (LaR)                           |

\* A summary of the classes of non-current assets held for sale and disposal groups is provided here.

|  |
|--|
| <b>Equity and liabilities</b>                  |
| Trading liabilities                            |
| Derivatives                                    |
| Short positions                                |
| Deposits                                       |
| Securitized liabilities (HFT)                  |
| Other financial liabilities (HFT)              |
| Financial liabilities designated at fair value |
| Derivatives                                    |
| Deposits                                       |
| Securitized liabilities (FVO)                  |
| Other financial liabilities (FVO)              |
| Negative fair values from hedging derivatives  |
| Interest rate derivatives                      |
| Cross-currency interest rate swaps             |
| Liabilities from disposal groups**             |
| Liabilities carried at amortized cost          |
| Deposits from banks                            |
| of which finance leases                        |
| Deposits from customers                        |
| of which finance leases                        |
| Securitized liabilities                        |
| Finance lease – other liabilities              |
| Subordinated capital                           |

The disclosure requirements under IFRS 13 are shown in Note 35.

#### IFRS to be applied in future.

The IFRS »Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)« must be applied compulsory for the first time as at 31 December 2013 and supplements the consolidated financial statements with additional disclosures to the Notes. They are not expected to have any material impact on the consolidated financial statements.

In addition, the following IFRS are relevant to the Group and have to be applied for the first time in future financial years:

- Mandatory Effective Date and Transition Disclosures (Amendments to IFRS 9 and IFRS 7)\*,
- IAS 28 Investments in Associates and Joint Ventures,
- IFRS 9 Financial Instruments (October 2010)\*,
- IFRS 10 Consolidated Financial Statements,
- IFRS 11 Joint Arrangements,
- IFRS 12 Disclosure of Interests in Other Entities,
- Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12),
- Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)\*,
- Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36)\*,
- Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39)\* and
- IFRIC Interpretation 21 Levies\*.

The effects of the amendments are currently being examined.

### 3. Scope of consolidation.

In addition to LBBW (Bank) as the parent company, 105 subsidiaries (31 December 2012: 106 subsidiaries), 16 special-purpose entities (31 December 2012: 17 special-purpose entities), an unchanged number of six joint ventures and six associates (31 December 2012: seven associates) were included in the consolidated interim financial statements.

The following subsidiary was deconsolidated in the period under review:

- SüdLeasing Finance-Holding GmbH

Furthermore, the following special-purpose entity was removed from the scope of consolidation:

- BWInvest-TR6-Fonds

With the consolidation of the SPEs, all the material risks arising from these entities are included in LBBW's consolidated interim financial statements.

A total of 177 (31 December 2012: 181) subsidiaries and SPEs were not included in the consolidated interim financial statements because their individual and aggregated influence on the net assets, financial position, and results of operations of the LBBW Group is not significant. These mainly include property management companies and shelf companies.

\* The changes marked with an asterisk were not yet endorsed at the time of preparing the consolidated interim financial statements.

\*\* A summary of the classes of disposal groups is provided here.

## Segment reporting.

The segment reporting of the LBBW Group for the first half of 2013 is 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 is an aggregate reporting segment in accordance with IFRS 8.12 and includes the business segments Corporates I, Corporates II and International Business. This segment includes the following material subsidiaries: LBBW Immobilien Management GmbH, Süd-Kapitalbeteiligungs-Gesellschaft mbH, SüdLeasing GmbH, MKB Mittelrheinische Bank GmbH and SüdFactoring GmbH. The Corporates segment comprises business with medium-sized corporate customers, with a focus on the core markets of Baden-Württemberg, Saxony and Rhineland-Palatinate, key accounts and business with the public sector. On the financing side, the solutions offered range from classic through structured to off-balance-sheet financing. Services are also offered in the areas of 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.
- Apart from trading activities in conjunction with the customer business, the **Financial Markets** segment also includes all sales activities with banks, sovereigns, insurance companies, and pension funds. The product portfolio contains financial instruments for the management of liquidity and interest rate, currency and credit risks. Financing solutions are also offered on the primary market in the field of equity and debt, along with asset management services. 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 Bank** segment includes all activities in the private customer business involving retail, investment, private banking, and wealth management customers. The products on offer cover 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 includes all business activities not included in the operating 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 interim financial statements, the costs of strategic projects for the Bank as a whole and to prepare for the new regulatory requirements.
- 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. 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.

A segment's return on equity (RoE) is calculated based on the ratio of annualized 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 first half of 2013, methodological improvements and more differentiated offsetting procedures led to a more refined income, cost, and volume allocation to segments. In particular, IFRS specifics in connection with the funding, which were previously included as an element in the reconciliation of the internal control variables to the data of external accounting, were allocated to the Corporate Items segment (previous year: EUR -116 million). The prior-year amounts were adjusted to the new reporting to preserve comparability.

#### Segment results by business area.

| EUR million  | Corporates              |                         | Financial Markets       |                         | Retail/Savings Banks    |                         | Credit Investment       |                         | Corporate Items/<br>Reconciliation/<br>Consolidation |                         | LBBW Group              |                         |
|--|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|--|-------------------------|-------------------------|-------------------------|
|  | 1 Jan.–<br>30 June 2013 | 1 Jan.–<br>30 June 2012 | 1 Jan.–<br>30 June 2013 | 1 Jan.–<br>30 June 2012 | 1 Jan.–<br>30 June 2013 | 1 Jan.–<br>30 June 2012 | 1 Jan.–<br>30 June 2013 | 1 Jan.–<br>30 June 2012 | 1 Jan.–<br>30 June 2013                              | 1 Jan.–<br>30 June 2012 | 1 Jan.–<br>30 June 2013 | 1 Jan.–<br>30 June 2012 |
| Net interest income  | 654                     | 680                     | 226                     | 228                     | 172                     | 185                     | -10                     | 8                       | -109   | 147                     | 933                     | 1 248                   |
| Allowances for losses on loans and advances  | -128                    | -86                     | -1                      | 4                       | -4                      | -9                      | 0                       | -2                      | -5   | 1                       | -137                    | -91                     |
| Net fee and commission income  | 157                     | 161                     | 56                      | 33                      | 108                     | 108                     | -1                      | -1                      | -53  | -54                     | 266                     | 247                     |
| Net gains/losses from financial instruments measured at fair value through profit or loss  | -13                     | -200                    | 75                      | 98                      | 0                       | -2                      | 74                      | 126                     | 51   | -198                    | 187                     | -176                    |
| Net gains/losses from financial investments, net income/expenses from investments accounted for using the equity method and from profit/loss transfer agreements | 0                       | 9                       | 0                       | 0                       | 0                       | 0                       | -59                     | -72                     | 33   | 42                      | -25                     | -21                     |
| Other operating income/expenses <sup>1)</sup>  | 44                      | 93                      | -25                     | 2                       | 10                      | -1                      | -3                      | 1                       | -17  | -55                     | 9                       | 38                      |
| <b>Total operating income/expenses (after allowances for losses on loans and advances)<sup>1)</sup></b>  | <b>714</b>              | <b>656</b>              | <b>331</b>              | <b>365</b>              | <b>286</b>              | <b>281</b>              | <b>1</b>                | <b>60</b>               | <b>-100</b>  | <b>-118</b>             | <b>1 232</b>            | <b>1 245</b>            |
| Administrative expenses  | -332                    | -336                    | -179                    | -167                    | -223                    | -221                    | -29                     | -31                     | -53  | -137                    | -816                    | -893                    |
| <b>Operating result</b>  | <b>382</b>              | <b>320</b>              | <b>152</b>              | <b>198</b>              | <b>64</b>               | <b>60</b>               | <b>-28</b>              | <b>29</b>               | <b>-153</b>  | <b>-255</b>             | <b>416</b>              | <b>352</b>              |
| Guarantee commission for the State of Baden-Württemberg  | 0                       | 0                       | 0                       | 0                       | 0                       | 0                       | -154                    | -151                    | 0  | 0                       | -154                    | -151                    |
| Impairment of goodwill   | -2                      | 0                       | 0                       | 0                       | 0                       | 0                       | 0                       | 0                       | 0  | 0                       | -2                      | 0                       |
| Net income/expenses from restructuring   | 0                       | -7                      | 0                       | 0                       | 0                       | 0                       | 0                       | 0                       | 0  | 0                       | 0                       | -7                      |
| <b>Net consolidated profit/loss before tax</b>   | <b>379</b>              | <b>313</b>              | <b>152</b>              | <b>198</b>              | <b>64</b>               | <b>60</b>               | <b>-182</b>             | <b>-122</b>             | <b>-153</b>  | <b>-255</b>             | <b>260</b>              | <b>194</b>              |
| Income tax   |                         |                         |                         |                         |                         |                         |                         |                         |  |                         | -84                     | -29                     |
| <b>Net consolidated profit/loss</b>  |                         |                         |                         |                         |                         |                         |                         |                         |  |                         | <b>176</b>              | <b>165</b>              |
| Segment assets   | 77 818                  | 82 924                  | 117 365                 | 125 163                 | 33 711                  | 34 453                  | 34 463                  | 41 289                  | 43 451   | 52 498                  | 306 807                 | 336 326                 |
| RoE (in %)   | 13.6                    | 11.6                    | 13.5 <sup>2)</sup>      | 25.4                    | 10.9                    | 11.0                    | <0                      | <0                      |  |                         | 4.0                     | 3.7                     |
| CIR (in %)   | 39.5                    | 45.8                    | 54.0                    | 46.3                    | 76.7                    | 76.3                    | 48.6                    | 23.3                    |  |                         | 58.5                    | 65.7                    |

1) Net income/expenses from investment property is recognized as part of the other operating income/expenses.

2) Already includes Basel III effects.

Details on Corporate Items, reconciliation and consolidation.

| EUR million  | Corporate Items          |                          | Reconciliation/<br>Consolidation |                          | Corporate Items<br>Reconciliation/Consolidation |                          |
|--|--------------------------|--------------------------|----------------------------------|--------------------------|---|--------------------------|
|  | 1 Jan. –<br>30 June 2013 | 1 Jan. –<br>30 June 2012 | 1 Jan. –<br>30 June 2013         | 1 Jan. –<br>30 June 2012 | 1 Jan. –<br>30 June 2013                        | 1 Jan. –<br>30 June 2012 |
| Net interest income  | -113                     | 263                      | 4                                | -116                     | -109  | 147                      |
| Allowances for losses on loans and advances  | -5                       | 0                        | 0                                | 1                        | -5  | 1                        |
| Net fee and commission income  | 1                        | 0                        | -54                              | -54                      | -53   | -54                      |
| Net gains/losses from financial instruments measured at fair value through profit or loss  | -48                      | -146                     | 99                               | -52                      | 51  | -198                     |
| 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                       | 31                               | 43                       | 33  | 42                       |
| Other operating income/expenses <sup>1)</sup>  | 13                       | -9                       | -30                              | -46                      | -17   | -55                      |
| <b>Total operating income/expenses (after allowances for losses on loans and advances)</b>   | <b>-150</b>              | <b>107</b>               | <b>51</b>                        | <b>-225</b>              | <b>-100</b>                                     | <b>-118</b>              |
| Administrative expenses  | -53                      | -137                     | 0                                | 0                        | -53   | -137                     |
| <b>Operating result</b>  | <b>-204</b>              | <b>-30</b>               | <b>51</b>                        | <b>-225</b>              | <b>-153</b>                                     | <b>-255</b>              |
| <b>Net consolidated profit/loss before tax</b>   | <b>-203</b>              | <b>-30</b>               | <b>51</b>                        | <b>-225</b>              | <b>-153</b>                                     | <b>-255</b>              |
| Segment assets   | 52 563                   | 66 615                   | -9 112                           | -14 117                  | 43 451  | 52 498                   |

1) Net income/expenses from investment property is recognized as part of the other operating income/expenses.

#### Reconciliation of segment results to the consolidated income statement.

In the first half of 2013, the total of »Reconciliation/Consolidation« on the net consolidated profit/loss before tax amounted to EUR +51 million (previous year: EUR -225 million) and is essentially due to the following factors:

- For 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 portfolio differ from those of IFRS accounting.
- Effects arise resulting from IFRS-specific matters connected with hedge accounting and the fair value option.

## Notes to the income statement.

### 4. 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 partnerships are reported under Interest expenses due to the classification of silent partnership contributions as debt in accordance with IAS 32.

| EUR million                                    | 1 Jan. –<br>30 June 2013 | 1 Jan. –<br>30 June 2012 |
|--|--------------------------|--------------------------|
| Trading derivatives                            | 6 524                    | 15 365                   |
| Lending and money market transactions          | 2 469                    | 3 042                    |
| Hedging derivatives                            | 1 936                    | 2 422                    |
| Fixed-income securities and debentures         | 720                      | 1 050                    |
| Early termination fees                         | 38                       | 50                       |
| Other  | 377                      | 510                      |
| <b>Interest income</b>                         | <b>12 064</b>            | <b>22 439</b>            |
| Leasing business                               | 462                      | 484                      |
| Equity investments and affiliates              | 17                       | 24                       |
| Equities and other non-fixed-income securities | 8                        | 19                       |
| <b>Current income</b>                          | <b>487</b>               | <b>527</b>               |
| <b>Interest and current income</b>             | <b>12 551</b>            | <b>22 966</b>            |
| Trading derivatives                            | -6 380                   | -15 287                  |
| Hedging derivatives                            | -2 046                   | -2 496                   |
| Deposits                                       | -1 375                   | -1 865                   |
| Securitized liabilities                        | -642                     | -955                     |
| Leasing business                               | -266                     | -273                     |
| Subordinated capital                           | -173                     | -123                     |
| Other  | -736                     | -719                     |
| <b>Interest expenses</b>                       | <b>-11 618</b>           | <b>-21 718</b>           |
| <b>Total</b>                                   | <b>933</b>               | <b>1 248</b>             |

For financial assets in the LaR category for which valuation allowances were recognized, interest income of EUR 30 million (previous year: EUR 33 million) was calculated in the period under review from the increase in the present value of the receivables (unwinding in accordance with IAS 39.AG93).

During the period under review, interest expenses of EUR - 5 million (previous year: EUR - 6 million) were recognized from the netting of treasury and intragroup debentures in accordance with IAS 39.39 et seq.

The decline in the item results from a positive effect from the previous year, arising from the change in present values in relation to the expected interest payment by silent partnership contributions and profit participation rights.

## 5. Allowances for losses on loans and advances.

| EUR million  | 1 Jan. –<br>30 June 2013 | 1 Jan. –<br>30 June 2012 |
|--|--------------------------|--------------------------|
| Additions to allowances for losses on loans and advances | -329                     | -379                     |
| Direct loan write-offs                                   | -66                      | -26                      |
| Net gains/losses from provisions for lending business    | -8                       | -23                      |
| Recoveries on loans and advances already written off     | 9                        | 7                        |
| Reversal of allowances for losses on loans and advances  | 261                      | 333                      |
| Other expenses for the lending business                  | -4                       | -3                       |
| <b>Total</b>   | <b>-137</b>              | <b>-91</b>               |

## 6. Net fee and commission income.

| EUR million                                    | 1 Jan. –<br>30 June 2013 | 1 Jan. –<br>30 June 2012 |
|--|--------------------------|--------------------------|
| Securities and custody business                | 99                       | 91                       |
| Payments and international transactions        | 88                       | 91                       |
| Brokerage business                             | 54                       | 56                       |
| Lending, trustee and guarantee (aval) business | 41                       | 51                       |
| Other  | 39                       | 36                       |
| <b>Fee and commission income</b>               | <b>321</b>               | <b>325</b>               |
| Securities and custody business                | -36                      | -49                      |
| Payments and international transactions        | -10                      | -10                      |
| Lending, trustee and guarantee (aval) business | -3                       | -6                       |
| Brokerage business                             | -3                       | -4                       |
| Leasing business                               | -1                       | -1                       |
| Other  | -2                       | -8                       |
| <b>Fee and commission expenses</b>             | <b>-55</b>               | <b>-78</b>               |
| <b>Total</b>                                   | <b>266</b>               | <b>247</b>               |

## 7. 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. –<br>30 June 2013 | 1 Jan. –<br>30 June 2012 |
|--|--------------------------|--------------------------|
| Net trading gains/losses   | 195                      | -136                     |
| Net gains/losses from financial instruments designated at fair value | -13                      | -29                      |
| Net gains/losses from hedge accounting                               | 5                        | -11                      |
| <b>Total</b>   | <b>187</b>               | <b>-176</b>              |

### 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. –<br>30 June 2013 | 1 Jan. –<br>30 June 2012 |
|---|--------------------------|--------------------------|
| Rating-induced transactions                           | 101                      | 82                       |
| Interest rate transactions                            | 52                       | - 213                    |
| Equity transactions                                   | 27                       | 10                       |
| Gains/losses from foreign exchange/commodity products | 18                       | - 1                      |
| Economic hedging derivatives                          | - 3                      | - 14                     |
| <b>Total</b>  | <b>195</b>               | <b>- 136</b>             |

Owing to the increase in customer activities, a respectable result could be achieved again in the customer-based capital markets business. In addition, spread tightening for credit derivatives in the credit investment portfolio had an overall positive effect on net trading gains/losses, even though the contribution to results was down on the previous year. The previous year was burdened considerably by valuation adjustments (for market parameters, counterparty risks and legal risks, among other things).

#### Net gains/losses from financial instruments designated at fair value.

Net gains/losses from financial instruments designated at fair value includes 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. –<br>30 June 2013 | 1 Jan. –<br>30 June 2012 |
|-------------------------|--------------------------|--------------------------|
| Realized gains/losses   | - 12                     | - 21                     |
| Unrealized gains/losses | - 1                      | - 8                      |
| <b>Total</b>            | <b>- 13</b>              | <b>- 29</b>              |

The change in the fair value of the financial liabilities classified here includes expenses of EUR - 57 million (previous year: EUR - 83 million) in Unrealized gains/losses in conjunction with consideration given to the Bank's own credit quality in the measurement.

#### 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. –<br>30 June 2013 | 1 Jan. –<br>30 June 2012 |
|------------------------------|--------------------------|--------------------------|
| Portfolio fair value hedge   | 9                        | - 14                     |
| of which hedged items        | 64                       | - 76                     |
| of which hedging instruments | - 55                     | 62                       |
| Micro fair value hedge       | - 4                      | 3                        |
| of which hedged items        | - 181                    | 42                       |
| of which hedging instruments | 177                      | - 39                     |
| <b>Total</b>                 | <b>5</b>                 | <b>- 11</b>              |

#### 8. 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. –<br>30 June 2013 | 1 Jan. –<br>30 June 2012 |
|---|--------------------------|--------------------------|
| Net gains/losses on the disposal                                  | 78                       | 29                       |
| of which derivatives structure                                    | 0                        | -19                      |
| of which securities   | 68                       | -4                       |
| of which equity investments                                       | 10                       | 52                       |
| Impairment  | -9                       | -15                      |
| Reversals of impairment losses                                    | 7                        | 25                       |
| <b>Net gains/losses from financial investments (AfS)</b>          | <b>76</b>                | <b>39</b>                |
| Net gains/losses on the disposal                                  | -109                     | -71                      |
| of which securities   | -109                     | -71                      |
| Impairment  | -26                      | -38                      |
| Reversals of impairment losses                                    | 41                       | 34                       |
| Net gains/losses from reimbursement rights of the state guarantee | -8                       | 6                        |
| <b>Net gains/losses from financial investments (LaR)</b>          | <b>-102</b>              | <b>-69</b>               |
| <b>Total</b>  | <b>-26</b>               | <b>-30</b>               |

Net gains/losses from reimbursement rights of the guarantee arise from the risk shield agreed with the State of Baden-Württemberg for a defined securitization portfolio sized at EUR 6.7 billion.

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

| EUR million                                    | 1 Jan. –<br>30 June 2013 | 1 Jan. –<br>30 June 2012 |
|--|--------------------------|--------------------------|
| Net gains/losses from associates               | -2                       | 14                       |
| Net gains/losses from shares in joint ventures | 3                        | -5                       |
| <b>Total</b>                                   | <b>1</b>                 | <b>9</b>                 |

## 10. Other operating income/expenses.

| EUR million                             | 1 Jan. –<br>30 June 2013 | 1 Jan. –<br>30 June 2012 |
|---|--------------------------|--------------------------|
| Disposal of inventories                 | 386                      | 89                       |
| Reversal of other provisions            | 43                       | 20                       |
| Operating lease                         | 10                       | 10                       |
| Management of other property portfolios | 9                        | 11                       |
| Revenues from property services         | 9                        | 11                       |
| Reversal of impairment on inventories   | 0                        | 20                       |
| Miscellaneous operating income          | 71                       | 37                       |
| <b>Other operating income</b>           | <b>528</b>               | <b>198</b>               |
| Disposal of inventories                 | -357                     | -93                      |
| Addition to other provisions            | -51                      | -1                       |
| Impairment of inventories               | -9                       | -4                       |
| Management of other property portfolios | -2                       | -3                       |
| Operating lease                         | -2                       | -2                       |
| Miscellaneous operating expenses        | -112                     | -90                      |
| <b>Other operating expenses</b>         | <b>-533</b>              | <b>-193</b>              |
| <b>Total</b>                            | <b>-5</b>                | <b>5</b>                 |

Other operating income/expenses was burdened by additions to provisions for legal risks and an impairment caused in connection with the sale of non-current assets held for sale and disposal groups. This was offset by successful project developments completed in the real estate sector.

The income and expenses from the disposal of inventories resulted chiefly from the sale of land and buildings (see Note 25).

## 11. Net income/expenses from investment property.

| EUR million                                  | 1 Jan. –<br>30 June 2013 | 1 Jan. –<br>30 June 2012 |
|--|--------------------------|--------------------------|
| Income from investment property              | 17                       | 41                       |
| Net gains/losses from fair value measurement | 1                        | 3                        |
| Expenses from investment property            | -5                       | -11                      |
| <b>Total</b>                                 | <b>13</b>                | <b>33</b>                |

The reduction in this item is largely associated with the sale of the LBBW Immobilien GmbH subgroup last year (first quarter 2012).

## 12. Administrative expenses.

| EUR million  | 1 Jan. –<br>30 June 2013 | 1 Jan. –<br>30 June 2012 |
|--|--------------------------|--------------------------|
| Staff costs  | -493                     | -509                     |
| Other administrative expenses                          | -272                     | -321                     |
| Depreciation and write-downs of property and equipment | -30                      | -30                      |
| Amortization and write-downs of intangible assets      | -21                      | -33                      |
| <b>Total</b>   | <b>-816</b>              | <b>-893</b>              |

The decline in total staff costs is primarily attributable to the restructuring measures that are meanwhile largely completed.

Other administrative expenses of EUR -272 million (previous year: EUR -321 million) include expenses of EUR -33 million for the bank levy charged in Germany (previous year: EUR -46 million). The decline in other administrative expenses is mainly attributable to lower expenses for legal and advisory services.

## 13. Income tax.

| EUR million                        | 1 Jan. –<br>30 June 2013 | 1 Jan. –<br>30 June 2012 |
|------------------------------------|--------------------------|--------------------------|
| Income tax from previous years     | -55                      | 78                       |
| Income tax in the reporting period | -26                      | -20                      |
| Deferred income tax                | -3                       | -87                      |
| <b>Total</b>                       | <b>-84</b>               | <b>-29</b>               |

The income tax expense increased by EUR -55 million to EUR -84 million, whereby current income taxes amounted to EUR -26 million, income taxes in respect of prior years to EUR -55 million, and deferred taxes to EUR -3 million. The effective average Group tax rate calculated for the period under review is 32.3%.



## Notes to the balance sheet.

### 14. Cash and cash equivalents.

| EUR million   | 30 June 2013 | 31 Dec. 2012 |
|---|--------------|--------------|
| Balances with central banks   | 5 869        | 2 737        |
| Cash  | 94           | 129          |
| Debt instruments issued by public-sector institutions and bills of exchange | 42           | 43           |
| <b>Total</b>  | <b>6 005</b> | <b>2 909</b> |

Balances with central banks include balances with Deutsche Bundesbank of EUR 379 million (previous year: EUR 1 102 million).

### 15. Loans and advances to banks.

#### Breakdown by business type.

| EUR million                        | 30 June 2013  | 31 Dec. 2012  |
|------------------------------------|---------------|---------------|
| Public-sector loans                | 35 196        | 37 515        |
| Securities repurchase transactions | 8 966         | 4 826         |
| Other loans                        | 3 751         | 3 429         |
| Borrower's note loans              | 1 628         | 1 720         |
| Money market transactions          | 447           | 478           |
| Other receivables                  | 2 590         | 2 098         |
| <b>Total</b>                       | <b>52 578</b> | <b>50 066</b> |
| of which to central counterparties | 3 028         | 1 509         |

#### Breakdown by region.

| EUR million           | 30 June 2013  | 31 Dec. 2012  |
|-----------------------|---------------|---------------|
| Banks within Germany  | 42 442        | 43 826        |
| Banks outside Germany | 10 136        | 6 240         |
| <b>Total</b>          | <b>52 578</b> | <b>50 066</b> |

Loans and advances to banks of EUR 22 969 million (previous year: EUR 17 623 million) are due within 12 months.

### 16. Loans and advances to customers.

#### Breakdown by business type.

| EUR million                        | 30 June 2013   | 31 Dec. 2012   |
|------------------------------------|----------------|----------------|
| Other loans                        | 28 869         | 30 821         |
| Mortgage loans                     | 27 384         | 28 268         |
| Public-sector loans                | 22 530         | 23 476         |
| Receivables from finance leases    | 8 129          | 8 328          |
| Securities repurchase transactions | 6 356          | 5 096          |
| Transmitted loans                  | 5 507          | 5 360          |
| Current account claims             | 4 378          | 4 556          |
| Money market transactions          | 3 327          | 4 038          |
| Borrower's note loans              | 2 724          | 2 764          |
| Construction financing             | 1 215          | 2 535          |
| Other receivables                  | 2 150          | 1 928          |
| <b>Total</b>                       | <b>112 569</b> | <b>117 170</b> |
| of which to central counterparties | 992            | 704            |

Breakdown by region.

| EUR million               | 30 June 2013   | 31 Dec. 2012   |
|---------------------------|----------------|----------------|
| Customers within Germany  | 82 068         | 84 034         |
| Customers outside Germany | 30 501         | 33 136         |
| <b>Total</b>              | <b>112 569</b> | <b>117 170</b> |

Loans and advances to customers of EUR 34 156 million (previous year: EUR 35 000 million) are due within 12 months.

#### 17. Allowances for losses on loans and advances.

The allowances for losses on loans and advances deducted from assets changed as follows in the first half of the financial year:

| EUR million   | Specific/<br>collective valuation allowance |                                    |                                 | Portfolio valuation allowance  |                                    |                                 |
|---|---|------------------------------------|---------------------------------|--------------------------------|------------------------------------|---------------------------------|
|   | Loans and<br>advances to banks              | Loans and advances<br>to customers | of which from<br>finance leases | Loans and<br>advances to banks | Loans and advances<br>to customers | of which from<br>finance leases |
| Balance as at 1 January 2013  | 14  | 2 322                              | 160                             | 8                              | 161                                | 24                              |
| Utilization   | -4  | -277                               | -21                             | 0                              | 0                                  | 0                               |
| Additions   | 0   | 240                                | 32                              | 5                              | 84                                 | 5                               |
| Reversals   | 0   | -192                               | -9                              | -4                             | -65                                | -11                             |
| Change in present value brought<br>about by the change in remaining<br>lifetime (unwinding) | 0   | -31                                | 0                               | 0                              | 0                                  | 0                               |
| Changes resulting from<br>exchange rate fluctuations and<br>other changes                   | 0   | -21                                | 1                               | 0                              | 0                                  | 0                               |
| <b>Balance as at 30 June 2013</b>   | <b>10</b>                                   | <b>2 041</b>                       | <b>163</b>                      | <b>9</b>                       | <b>180</b>                         | <b>18</b>                       |

| EUR million   | Specific/<br>collective valuation allowance |                                    |                                 | Portfolio valuation allowance  |                                    |                                 |
|---|---|------------------------------------|---------------------------------|--------------------------------|------------------------------------|---------------------------------|
|   | Loans and<br>advances to banks              | Loans and advances<br>to customers | of which from<br>finance leases | Loans and<br>advances to banks | Loans and advances<br>to customers | of which from<br>finance leases |
| Balance as at 1 January 2012  | 175   | 2 556                              | 170                             | 10                             | 204                                | 17                              |
| Utilization   | -171  | -376                               | -39                             | 0                              | 0                                  | 0                               |
| Additions   | 11  | 561                                | 44                              | 6                              | 101                                | 14                              |
| Reversals   | 0   | -369                               | -16                             | -8                             | -141                               | -4                              |
| Change in present value brought<br>about by the change in remaining<br>lifetime (unwinding) | 0   | -56                                | -2                              | 0                              | 0                                  | 0                               |
| Changes resulting from<br>exchange rate fluctuations and<br>other changes                   | -1  | 6                                  | 3                               | 0                              | -3                                 | -3                              |
| <b>Balance as at 31 December 2012</b>   | <b>14</b>                                   | <b>2 322</b>                       | <b>160</b>                      | <b>8</b>                       | <b>161</b>                         | <b>24</b>                       |

#### 18. Financial assets measured at fair value through profit or loss.

The financial assets measured at fair value through profit or loss are broken down as follows:

| EUR million                                   | 30 June 2013  | 31 Dec. 2012   |
|---|---------------|----------------|
| Trading assets                                | 78 836        | 101 375        |
| Financial assets designated at fair value     | 2 463         | 3 063          |
| Positive fair values from hedging derivatives | 4 669         | 6 026          |
| <b>Total</b>                                  | <b>85 968</b> | <b>110 464</b> |

Trading assets and financial assets designated at fair value.

| EUR million  | Trading assets |                | Financial assets designated at fair value |              |
|--|----------------|----------------|---|--------------|
|  | 30 June 2013   | 31 Dec. 2012   | 30 June 2013                              | 31 Dec. 2012 |
| Debentures and other fixed-income securities                             | 19 124         | 19 523         | 879                                       | 1 067        |
| Bonds and debentures   | 16 448         | 16 713         | 879                                       | 1 066        |
| Money market instruments   | 2 676          | 2 810          | 0   | 1            |
| Equities and other non-fixed-income securities                           | 622            | 454            | 242                                       | 225          |
| Investment units   | 426            | 272            | 226                                       | 218          |
| Equities   | 194            | 182            | 10  | 0            |
| Other securities   | 2              | 0              | 6   | 7            |
| Other  | 30 609         | 28 850         | 489                                       | 604          |
| Other money market transactions  | 26 442         | 23 928         | 0   | 0            |
| Borrower's note loans  | 3 077          | 3 785          | 402                                       | 514          |
| Other loans and receivables  |                |                | 27  | 28           |
| Miscellaneous  | 1 090          | 1 137          | 60  | 62           |
| Positive fair values from derivative financial instruments <sup>1)</sup> | 28 481         | 52 548         | 853                                       | 1 167        |
| <b>Total</b>   | <b>78 836</b>  | <b>101 375</b> | <b>2 463</b>                              | <b>3 063</b> |

1) The financial assets designated at fair value include economic hedging derivatives of the held-for-trading category which do not qualify for a hedging relationship in accordance with IAS 39.

The reduction in trading assets is mainly due to the netting of derivatives with central counterparties in the first half of the year. In addition, derivatives were closed at mutually offsetting fair values at the portfolio level in the first half of 2013. The lower fair values of interest rate derivatives compared with year-end 2012 because of higher interest rates also resulted in a decline.

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   | 30 June 2013 | 31 Dec. 2012 |
|---|--------------|--------------|
| Positive fair values from portfolio fair value hedges | 3 806        | 4 801        |
| Positive fair values from micro fair value hedges     | 863          | 1 222        |
| Positive fair values from cash flow hedges            | 0            | 3            |
| <b>Total</b>  | <b>4 669</b> | <b>6 026</b> |

## 19. Financial investments.

| EUR million                                    | 30 June 2013  | 31 Dec. 2012  |
|--|---------------|---------------|
| Debentures and other fixed-income securities   | 44 498        | 51 207        |
| Bonds and debentures                           | 44 332        | 51 144        |
| Money market instruments                       | 111           | 0             |
| Refund claim (guarantee)                       | 55            | 63            |
| Equities and other non-fixed-income securities | 5             | 6             |
| Investment units                               | 2             | 3             |
| Other securities                               | 3             | 3             |
| Equity investments                             | 921           | 971           |
| Shares in affiliates                           | 580           | 587           |
| <b>Total</b>                                   | <b>46 004</b> | <b>52 771</b> |

The decrease in this item is due to a further reduction in the credit investment portfolio as well as maturities of debentures and other fixed-income securities.

## 20. Shares in investments accounted for using the equity method.

| EUR million    | 30 June 2013 | 31 Dec. 2012 |
|----------------|--------------|--------------|
| Associates     | 257          | 267          |
| Joint ventures | 36           | 36           |
| <b>Total</b>   | <b>293</b>   | <b>303</b>   |

## 21. Non-current assets held for sale and disposal groups.

The restructuring plan for the reorganization of the LBBW Group resolved by the Board of Managing Directors envisages the disposal of various equity investments. The resolution was passed upon approval of the restructuring plan by the previous Supervisory Board and communication to the EU Commission dated 3 December 2009. Within the scope of the restructuring plan, negotiations on the sale of non-current assets and disposal groups were entered into or held during the first half of the year.

Compared with 31 December 2012, the following changes arose in relation to the non-current assets classified as held for sale and disposal groups:

- An equity investment in Württembergische Lebensversicherung AG, Stuttgart, which was classified as a non-current asset held for sale, was disposed of in the course of the first half of 2013. Until it was disposed of, the equity investment was allocated to the Corporate Items segment.
- All IFRS 5 criteria were fulfilled for the first time as at 30 June 2013 for an equity investment held by a fully consolidated subsidiary of LBBW Group, and it was recognized as a non-current asset held for sale. The equity investment is allocated to the Corporates reporting segment.

- In addition, LBBW commenced negotiations in the first half of 2013 for the sale of a fully consolidated subsidiary which was classified as a disposal group. The negotiations are expected to be completed and the disposal group sold by the end of 2013. This affects the Corporates reporting segment.
- All IFRS 5 criteria were satisfied for the first time as of 30 June 2013 in connection with the outsourcing of parts of LBBW's IT operations. The assets and liabilities to be transferred under the outsourcing arrangements were duly reclassified. All segments were affected by this. The operations will be transferred in the third quarter of 2013.

The building owned by a subsidiary for its own use, for which the IFRS 5 criteria were satisfied for the first time as at 31 December 2012, is still classified as a held-for-sale non-current asset. This subsidiary is allocated to the Credit Investment segment.

The reclassification of disposal groups and non-current assets in accordance with IFRS 5 resulted in impairments of EUR – 32 million.

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

| EUR million   | 30 June 2013 | 31 Dec. 2012 |
|---|--------------|--------------|
| <b>Assets</b>   |              |              |
| Cash and cash equivalents   | 10           | 0            |
| Loans and advances to banks   | 173          | 0            |
| Loans and advances to customers                                     | 944          | 0            |
| Allowances for losses on loans and advances                         | -23          | 0            |
| Financial assets at fair value through profit or loss               | 4            | 0            |
| Financial investments   | 97           | 16           |
| Intangible assets   | 3            | 0            |
| Investment property   | 3            | 0            |
| Property and equipment  | 34           | 7            |
| Income tax assets   | 6            | 0            |
| Other assets  | 1            | 0            |
| <b>Total</b>  | <b>1 252</b> | <b>23</b>    |
| <b>Liabilities</b>  |              |              |
| Deposits from banks   | 28           | 0            |
| Deposits from customers   | 931          | 0            |
| Financial liabilities measured at fair value through profit or loss | 10           | 0            |
| Provisions  | 37           | 0            |
| Other liabilities   | 4            | 0            |
| <b>Total</b>  | <b>1 010</b> | <b>0</b>     |
| Contingent liabilities and other obligations                        | 127          | 0            |

## 22. Intangible assets.

| EUR million  | 30 June 2013 | 31 Dec. 2012 |
|--|--------------|--------------|
| Goodwill   | 397          | 399          |
| Software   | 54           | 75           |
| Advance payments and cost of intangible assets in development or preparation | 26           | 20           |
| Other intangible assets acquired   | 6            | 8            |
| <b>Total</b>   | <b>483</b>   | <b>502</b>   |

Amortization and write-downs of intangible assets, both scheduled and unscheduled – with the exception of goodwill – are included in the Amortization and write-downs of intangible assets item in the Administrative expenses.

### Goodwill.

As a rule, goodwill is tested for impairment in the fourth quarter of each financial year by comparing the recoverable amount of each business segment or segment, which report a goodwill, with its carrying amount. The carrying amount is determined on the basis of the equity attributed to the business segment or

segment. The recoverable amount is the higher of the fair value of the business segment or segment less sales costs and the value in use. The impairment test conducted at year-end showed that the recoverable amount for all business segments was higher than their corresponding carrying amount, so that no impairment was necessary.

As at 30 June 2013, there are no triggering events to justify an impairment of goodwill or customer relationships. The impairments shown in the table arise from the measurement of a fully consolidated subsidiary (disposal group) held for sale.

## 23. Investment property.

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

| EUR million   | 2013       | 2012       |
|---|------------|------------|
| <b>Carrying amount as at 1 January</b>                          | <b>516</b> | <b>469</b> |
| Additions   | 2          | 0          |
| Disposals   | -6         | -12        |
| Transfer to non-current assets held for sale or disposal groups | -3         | 54         |
| Changes in fair value from assets                               | 1          | 3          |
| Changes in fair value due to disposals or impairment            | 0          | 2          |
| <b>Carrying amount as at 30 June/31 December</b>                | <b>510</b> | <b>516</b> |

## 24. Property and equipment.

| EUR million                                    | 30 June 2013 | 31 Dec. 2012 |
|--|--------------|--------------|
| Land and buildings                             | 369          | 401          |
| Leased assets under operating leases           | 123          | 124          |
| Operating and office equipment                 | 114          | 147          |
| Technical equipment and machinery              | 22           | 30           |
| Leased assets under finance leases             | 4            | 4            |
| Advance payments and assets under construction | 3            | 4            |
| <b>Total</b>                                   | <b>635</b>   | <b>710</b>   |

Scheduled and unscheduled depreciation and write-downs are included in the Depreciation and write-downs of property and equipment item in Administrative expenses.

The decline in Property and equipment is primarily due to the classification of the outsourced parts of LBBW's IT operations and a fully consolidated subsidiary, which are designated as disposal groups, and the resulting reclassification and partial impairment of the property and equipment.

## 25. Other assets.

| EUR million  | 30 June 2013 | 31 Dec. 2012 |
|--|--------------|--------------|
| Inventories  | 738          | 1 034        |
| Receivables from tax authorities                               | 18           | 13           |
| Receivables from investment income received in the same period | 2            | 7            |
| Other miscellaneous assets                                     | 196          | 310          |
| <b>Total</b>   | <b>954</b>   | <b>1 364</b> |

The decline in Inventories chiefly relates to the sale of land and buildings owned by the LBBW Immobilien Management GmbH subgroup (see Note 10).

## 26. Deposits from banks.

### Breakdown by business type.

| EUR million                                     | 30 June 2013  | 31 Dec. 2012  |
|---|---------------|---------------|
| Securities repurchase transactions              | 19 648        | 15 388        |
| Borrower's note loans                           | 11 584        | 13 743        |
| Money market transactions                       | 3 600         | 3 910         |
| Public-sector registered covered bonds issued   | 3 005         | 3 815         |
| Current account liabilities                     | 1 757         | 2 487         |
| Mortgage-backed registered covered bonds issued | 431           | 439           |
| Leasing business                                | 318           | 354           |
| Other liabilities                               | 26 490        | 24 100        |
| <b>Total</b>                                    | <b>66 833</b> | <b>64 236</b> |
| of which to central counterparties              | 9 821         | 6 993         |

### Breakdown by region.

| EUR million           | 30 June 2013  | 31 Dec. 2012  |
|-----------------------|---------------|---------------|
| Banks within Germany  | 58 534        | 58 564        |
| Banks outside Germany | 8 299         | 5 672         |
| <b>Total</b>          | <b>66 833</b> | <b>64 236</b> |

Deposits from banks of EUR 31 668 million (previous year: EUR 27 748 million) are due within 12 months.

## 27. Deposits from customers.

### Breakdown by business type.

| EUR million                                     | 30 June 2013  | 31 Dec. 2012  |
|---|---------------|---------------|
| Current account liabilities                     | 28 199        | 27 312        |
| Money market transactions                       | 14 472        | 17 005        |
| Borrower's note loans                           | 9 810         | 10 755        |
| Securities repurchase transactions              | 9 687         | 10 001        |
| Public-sector registered covered bonds issued   | 8 435         | 9 232         |
| Savings deposits                                | 7 282         | 7 050         |
| Mortgage-backed registered covered bonds issued | 1 207         | 1 211         |
| Other liabilities                               | 2 161         | 2 766         |
| <b>Total</b>                                    | <b>81 253</b> | <b>85 332</b> |
| of which to central counterparties              | 9 304         | 7 325         |

### Breakdown by region.

| EUR million               | 30 June 2013  | 31 Dec. 2012  |
|---------------------------|---------------|---------------|
| Customers within Germany  | 67 198        | 71 892        |
| Customers outside Germany | 14 055        | 13 440        |
| <b>Total</b>              | <b>81 253</b> | <b>85 332</b> |

Deposits from customers of EUR 45 770 million (previous year: EUR 47 740 million) are due within 12 months.

## 28. Securitized liabilities.

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

| EUR million                   | 30 June 2013  | 31 Dec. 2012  |
|-------------------------------|---------------|---------------|
| Issued debentures             | 54 959        | 59 879        |
| Other bonds                   | 35 180        | 36 771        |
| Covered bonds                 | 19 779        | 23 108        |
| Other securitized liabilities | 947           | 1 710         |
| <b>Total</b>                  | <b>55 906</b> | <b>61 589</b> |

See Note 40 for explanations regarding issuing activity.



## 29. Financial liabilities measured at fair value through profit or loss.

The financial liabilities measured at fair value through profit or loss are broken down as follows:

| EUR million                                    | 30 June 2013  | 31 Dec. 2012  |
|--|---------------|---------------|
| Trading liabilities                            | 64 629        | 85 357        |
| Financial liabilities designated at fair value | 6 781         | 7 484         |
| Negative fair values from hedging derivatives  | 4 819         | 6 891         |
| <b>Total</b>                                   | <b>76 229</b> | <b>99 732</b> |

### Trading liabilities and financial liabilities designated at fair value.

| EUR million  | Trading liabilities |               | Financial liabilities designated at fair value |              |
|--|---------------------|---------------|--|--------------|
|  | 30 June 2013        | 31 Dec. 2012  | 30 June 2013                                   | 31 Dec. 2012 |
| Money market transactions  | 34 025              | 30 722        | 0  | 0            |
| Negative fair values from trading derivatives and economic hedging derivatives <sup>1)</sup> | 27 184              | 51 575        | 255  | 300          |
| Securitized liabilities  | 2 358               | 2 064         | 3 225  | 3 757        |
| Delivery obligations from short sales of securities  | 1 023               | 958           | 0  | 0            |
| Borrower's note loans  | 38                  | 38            | 2 511  | 2 721        |
| Subordinated liabilities   |                     |               | 733  | 636          |
| Other financial liabilities  | 1                   | 0             | 57   | 70           |
| <b>Total</b>   | <b>64 629</b>       | <b>85 357</b> | <b>6 781</b>                                   | <b>7 484</b> |

1) The financial liabilities designated at fair value include economic hedging derivatives of the held-for-trading category which do not qualify for a hedging relationship in accordance with IAS 39.

The decline in trading liabilities is primarily due to the netting of derivatives with key counterparties in the first half of the year. In addition, derivatives were closed at mutually offsetting fair values at the portfolio level in the first half of 2013. Due to higher interest rates the fair values of interest rate derivatives also resulted in a decline compared with the year-end 2012.

### 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   | 30 June 2013 | 31 Dec. 2012 |
|---|--------------|--------------|
| Negative fair values from portfolio fair value hedges | 3 360        | 4 941        |
| Negative fair values from micro fair value hedges     | 1 459        | 1 945        |
| Negative fair values from cash flow hedges            | 0            | 5            |
| <b>Total</b>  | <b>4 819</b> | <b>6 891</b> |

### 30. Provisions.

| EUR million                               | 30 June 2013 | 31 Dec. 2012 |
|---|--------------|--------------|
| Provisions for pensions                   | 2 191        | 2 293        |
| Other provisions                          | 811          | 613          |
| of which restructuring-related provisions | 233          | 254          |
| Provisions for lending business           | 108          | 99           |
| Other personnel-related provisions        | 120          | 128          |
| <b>Total</b>                              | <b>3 230</b> | <b>3 133</b> |

### 31. Other liabilities.

| EUR million                     | 30 June 2013 | 31 Dec. 2012 |
|---------------------------------|--------------|--------------|
| Liabilities from                |              |              |
| Other taxes                     | 66           | 205          |
| Deliveries and services         | 48           | 51           |
| Employment                      | 30           | 65           |
| Non-controlling interests       | 11           | 11           |
| Finance lease                   | 10           | 11           |
| Advances received               | 157          | 153          |
| Other miscellaneous liabilities | 892          | 202          |
| <b>Total</b>                    | <b>1 214</b> | <b>698</b>   |

Other miscellaneous liabilities increased largely due to the reclassification of maturing profit-participation rights of EUR 358 million from Subordinated capital to Other liabilities.

### 32. 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  | 30 June 2013 | 31 Dec. 2012 |
|--|--------------|--------------|
| Subordinated liabilities                           | 3 814        | 3 856        |
| Typical silent partnership contributions           | 2 626        | 5 100        |
| Capital generated from profit-participation rights | 373          | 759          |
| <b>Total</b>                                       | <b>6 813</b> | <b>9 715</b> |

A major part of the decline in the capital contributions of typical silent partners' contributions, a sum of EUR 2.2 billion, arises from the premature repayment to the State of Baden-Württemberg, the Baden-Württemberg Savings Bank Association, and the City of Stuttgart of part of the silent partners' contributions on 1 January 2013 (see also Note 33).

### 33. Equity.

| EUR million                                     | 30 June 2013  | 31 Dec. 2012  |
|---|---------------|---------------|
| Share capital                                   | 3 484         | 2 584         |
| Capital reserve                                 | 8 240         | 6 910         |
| Retained earnings                               | 1 219         | 771           |
| Other income                                    | - 77          | - 363         |
| Unappropriated profit/loss                      | 180           | 399           |
| Equity attributable to non-controlling interest | 17            | 21            |
| <b>Total</b>                                    | <b>13 063</b> | <b>10 322</b> |

In accordance with the decision dated 7 December 2012 to increase the Bank's capital without any alteration to the share ratios, the State of Baden-Württemberg, the Baden-Württemberg Savings Bank Association, and the City of Stuttgart provided LBBW with the total proceeds from the repayment of the silent partners' contributions and the currency swap by contributing share capital of EUR 900 million and injecting a sum of EUR 1 330 million into the capital reserve on 1 January 2013.

## Notes on financial instruments.

### 34. Fair value of financial instruments.

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

#### Assets.

| EUR million   | 30 June 2013    |            | 31 Dec. 2012    |            |
|---|-----------------|------------|-----------------|------------|
|   | Carrying amount | Fair value | Carrying amount | Fair value |
| Trading assets  | 78 836          | 78 836     | 101 375         | 101 375    |
| Financial assets designated at fair value   | 2 463           | 2 463      | 3 063           | 3 063      |
| Positive fair values from hedging derivatives                                     | 4 669           | 4 669      | 6 026           | 6 026      |
| Financial investments (AfS)   | 24 197          | 24 197     | 28 942          | 28 942     |
| Non-current assets held for sale and disposal groups                              | 1 198           | 1 198      | 16              | 16         |
| Assets carried at amortized cost  |                 |            |                 |            |
| Loans and advances to banks after allowances for losses on loans and advances     | 52 559          | 53 965     | 50 044          | 51 994     |
| Loans and advances to customers after allowances for losses on loans and advances | 110 348         | 113 664    | 114 687         | 119 321    |
| of which finance lease after allowances for losses on loan and advances           | 7 948           | 8 138      | 8 144           | 8 950      |
| Financial investments (LaR)   | 21 807          | 21 787     | 23 829          | 23 705     |

#### Equity and liabilities.

| EUR million                                    | 30 June 2013    |            | 31 Dec. 2012    |            |
|--|-----------------|------------|-----------------|------------|
|  | Carrying amount | Fair value | Carrying amount | Fair value |
| Trading liabilities                            | 64 629          | 64 629     | 85 357          | 85 357     |
| Financial liabilities designated at fair value | 6 781           | 6 781      | 7 484           | 7 484      |
| Negative fair values from hedging derivatives  | 4 819           | 4 819      | 6 891           | 6 891      |
| Liabilities from disposal groups               | 969             | 969        | 0               | 0          |
| Liabilities carried at amortized cost          |                 |            |                 |            |
| Deposits from banks                            | 66 833          | 65 156     | 64 236          | 59 904     |
| Deposits from customers                        | 81 253          | 83 357     | 85 332          | 88 611     |
| Securitized liabilities                        | 55 906          | 57 188     | 61 589          | 63 375     |
| Finance lease – other liabilities              | 10              | 10         | 11              | 11         |
| Subordinated capital                           | 6 813           | 6 885      | 9 715           | 9 298      |

### 35. Fair value hierarchy.

The LBBW Group has been applying the guidance contained in IFRS 13 »Fair Value Measurement« since 1 January 2013. IFRS 13 provides a more specific definition of fair value and guidance on the measurement of fair value in cases in which such measurement is required or permitted by another standard. In addition, IFRS 13 requires more comprehensive disclosures on fair value-based measurement.

The fair values used when measuring financial instruments continue to be classified in a three-level fair value hierarchy, taking into consideration the valuation 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 lowest 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 defined as follows within the LBBW Group:

- All financial instruments with prices quoted on active markets are assigned to the first group (Level I).
- OTC derivatives measured using models, tradable credits, structured Group debt instruments designated at fair value, units in investment funds and certain corporate/financial and government bonds with automatic provision from market information systems (observable parameters) 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, illiquid loans including illiquid asset-backed securities and structured securitizations.

For certain complex interest derivatives, the non-implicit interest-interest correlations required for measurement by reference to yield curve models are based on expert estimates which are partially gained from historical observations and partially from market price-derived correlations. The correlation of parameters 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.

The fair values for securitizations were calculated by means of 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.

There have been no major changes in the valuation process compared with the previous reporting period. For a detailed presentation please refer to the consolidated financial statements as at 31 December 2012.

The following table shows the carrying amounts of financial instruments designated at fair value broken down by valuation method:

| 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) |              |
|--|---|---------------|--|----------------|---|--------------|
|  | 30 June 2013                              | 31 Dec. 2012  | 30 June 2013   | 31 Dec. 2012   | 30 June 2013  | 31 Dec. 2012 |
| Trading assets                                       | 11 371                                    | 11 916        | 66 965   | 89 462         | 500   | - 3          |
| Financial assets designated at fair value            | 46  | 126           | 2 198  | 2 712          | 219   | 225          |
| Positive fair values from hedging derivatives        | 0   | 0             | 4 669  | 6 026          | 0   | 0            |
| Financial investments (AfS)                          | 16 997                                    | 20 447        | 6 099  | 7 360          | 1 101   | 1 135        |
| Non-current assets held for sale and disposal groups | 39  | 16            | 62   | 0              | 0   | 0            |
| <b>Total assets</b>                                  | <b>28 453</b>                             | <b>32 505</b> | <b>79 993</b>  | <b>105 560</b> | <b>1 820</b>  | <b>1 357</b> |
| Trading liabilities                                  | 1 718                                     | 3 441         | 62 377   | 81 876         | 534   | 40           |
| Financial liabilities designated at fair value       | 0   | 0             | 6 387  | 7 356          | 394   | 128          |
| Negative fair values from hedging derivatives        | 0   | 11            | 4 819  | 6 880          | 0   | 0            |
| Liabilities from disposal groups                     | 0   | 0             | 10   | 0              | 0   | 0            |
| <b>Total equity and liabilities</b>                  | <b>1 718</b>                              | <b>3 452</b>  | <b>73 593</b>  | <b>96 112</b>  | <b>928</b>  | <b>168</b>   |

In accordance with IAS 34.15B, the following transfers were made between the different levels in the fair value hierarchy since the last closing date:

#### Assets.

| EUR million                               | Transfers from<br>level I to level II |              | Transfers from<br>level II to level I |              |
|---|---------------------------------------|--------------|---------------------------------------|--------------|
|   | 30 June 2013                          | 31 Dec. 2012 | 30 June 2013                          | 31 Dec. 2012 |
| Trading assets                            | 100                                   | 57           | 24                                    | 51           |
| Financial assets designated at fair value | 12                                    | 46           | 16                                    | 17           |
| Financial investments (AFS)               | 843                                   | 2 630        | 624                                   | 1 794        |

In the first half of 2013, LBBW transferred held-for-trading and available-for-sale securities from Level I to Level II as no listed prices from active markets were available.

Other held-for-trading and available-for-sale securities were reclassified in the opposite direction as listed prices from active markets became available for them again.

Changes per class in the portfolios of financial instruments measured at fair value, which were calculated using valuation models which include material non-observable parameters (Level III), were as follows:

#### Assets.

| EUR million   | Trading assets | Financial assets<br>designated<br>at fair value | Financial<br>investments (AFS) | Non-current assets<br>and disposal groups<br>held for sale | Total |
|---|----------------|---|--------------------------------|--|-------|
| <b>Carrying amount as at 1 January 2013</b>   | -3             | 225   | 1 135                          | 0  | 1 357 |
| Gains and losses recognized in net consolidated profit/loss   | 498            | 29  | 2                              | 0  | 529   |
| Income and expenses recognized in Other income  | 0              | 0   | -11                            | 0  | -11   |
| Additions through acquisitions  | 0              | 0   | 39                             | 0  | 39    |
| Disposals through sales   | 0              | -10   | -9                             | 0  | -19   |
| Repayments/offsetting   | -1             | -25   | -11                            | 0  | -37   |
| Transfers to level III  | 0              | 0   | 9                              | 0  | 9     |
| Transfers from level III  | 6              | 0   | -16                            | 0  | -10   |
| Transfers in accordance with IFRS 5   | 0              | 0   | -37                            | 0  | -37   |
| <b>Carrying amount as at 30 June 2013</b>   | 500            | 219   | 1 101                          | 0  | 1 820 |
| of which unrealized gains and losses recognized in net consolidated profit/loss for financial instruments held as at the reporting date | 498            | 26  | 0                              | 0  | 524   |

#### Assets.

| EUR million   | Trading assets | Financial assets<br>designated<br>at fair value | Financial<br>investments (AFS) | Non-current assets<br>and disposal groups<br>held for sale | Total |
|---|----------------|---|--------------------------------|--|-------|
| <b>Carrying amount as at 1 January 2012</b>   | 321            | 387   | 1 096                          | 140  | 1 944 |
| Gains and losses recognized in net consolidated profit/loss   | -82            | 51  | -17                            | 5  | -43   |
| Income and expenses recognized in Other income  | 0              | 0   | 72                             | -15  | 57    |
| Additions through acquisitions  | 0              | 36  | 4                              | 0  | 40    |
| Disposals through sales   | -58            | -190  | -87                            | -70  | -405  |
| Repayments/offsetting   | -184           | -101  | -154                           | 0  | -439  |
| Changes in the scope of consolidation   | 0              | 0   | 9                              | 0  | 9     |
| Transfers to level III  | 0              | 42  | 179                            | 0  | 221   |
| Transfers from level III  | 0              | 0   | -1                             | -26  | -27   |
| Transfers in accordance with IFRS 5   | 0              | 0   | 34                             | -34  | 0     |
| <b>Carrying amount as at 31 December 2012</b>   | -3             | 225   | 1 135                          | 0  | 1 357 |
| of which unrealized gains and losses recognized in net consolidated profit/loss for financial instruments held as at the reporting date | -87            | 9   | -18                            | -1   | -97   |

## Equity and liabilities.

| EUR million   | Trading liabilities | Financial liabilities designated at fair value | Total      |
|---|---------------------|--|------------|
| <b>Carrying amount as at 1 January 2013</b>   | <b>40</b>           | <b>128</b>                                     | <b>168</b> |
| Gains and losses recognized in net consolidated profit/loss   | 497                 | -2   | 495        |
| Repayments/offsetting   | -3                  | 0  | -3         |
| Transfers to level III  | 0                   | 268  | 268        |
| <b>Carrying amount as at 30 June 2013</b>   | <b>534</b>          | <b>394</b>                                     | <b>928</b> |
| of which unrealized gains and losses recognized in net consolidated profit/loss for financial instruments held as at the reporting date | 494                 | -2   | 492        |

## Equity and liabilities.

| EUR million   | Trading liabilities | Financial liabilities designated at fair value | Total      |
|---|---------------------|--|------------|
| <b>Carrying amount as at 1 January 2012</b>   | <b>346</b>          | <b>314</b>                                     | <b>660</b> |
| Gains and losses recognized in net consolidated profit/loss   | -74                 | -87  | -161       |
| Disposals through sales   | -44                 | -99  | -143       |
| Repayments/offsetting   | -188                | 0  | -188       |
| <b>Carrying amount as at 31 December 2012</b>   | <b>40</b>           | <b>128</b>                                     | <b>168</b> |
| of which unrealized gains and losses recognized in net consolidated profit/loss for financial instruments held as at the reporting date | 72                  | 7  | 79         |

The unrealized profit and loss on Level III financial instruments are based on both observable and non-observable parameters. Many of these financial instruments are hedged for economic purposes by financial instruments assigned to other hierarchical levels. The compensating gains and losses from these hedges are not included in the above tables as IFRS 13 stipulates that only unrealized gains and losses on Level III financial instruments must be disclosed.

The summarized results of financial instruments measured as Level III are reflected in net consolidated profit/loss as follows:

| EUR million   | Net gains/losses from financial instruments measured at fair value through profit or loss |                          |  |   |
|---|---|--------------------------|--|---|
|   | Net interest income   | Net trading gains/losses | Net gains/losses from financial instruments designated at fair value | Net gains/losses from financial investments |
| Gains and losses recognized in net consolidated profit/loss | -13   | 33                       | 11   | 2   |
| Trading assets/trading liabilities                          | -18   | 17                       | 0  | 0   |
| Financial assets/liabilities designated at fair value       | 5   | 16                       | 11   | 0   |
| Financial investments (AFS)                                 | 0   | 0                        | 0  | 2   |

1 Jan. – 31 Dec. 2012

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

| EUR million  | Net interest income | Net trading gains/losses | Net gains/losses from<br>financial instruments<br>designated at fair value | Net gains/losses from<br>financial investments |
|--|---------------------|--------------------------|--|--|
| Gains and losses recognized in net consolidated<br>profit/loss                           | - 1                 | 2                        | 129  | - 35   |
| Trading assets/trading liabilities   | - 1                 | 13                       | 0  | 0  |
| Financial assets/liabilities designated at fair value                                    | 0                   | - 11                     | 129  | 0  |
| Financial investments (AFS)  | 0                   | 0                        | 0  | - 17   |
| Fair values from hedge accounting  | 0                   | 0                        | 0  | - 23   |
| Non-current assets held for sale and disposal<br>groups/liabilities from disposal groups | 0                   | 0                        | 0  | 5  |

Sensitivity analysis.

If the model value of financial instruments is based on non-observable market parameters, alternative parameters are used to determine the potential estimation uncertainties. 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. The purpose of this information is not the assessment or forecast of future change in fair value.

30 June 2013

| EUR million  | Positive changes<br>in fair value   | Negative changes<br>in fair value   |
|--|---|---|
|  | Net gains/losses from<br>financial instruments<br>measured at fair value<br>Revaluation reserve | Net gains/losses from<br>financial instruments<br>measured at fair value<br>Revaluation reserve |
| <b>Financial instruments measured at fair value through profit or loss</b> |   |   |
| Derivatives  | 4.1   | - 4.1   |
| Securities   | 3.2   | - 3.2   |
| Cash CDOs  | 1.3   | - 1.3   |
| Synthetic CDOs   | 0.1   | - 0.1   |
| Bonds  | 1.8   | - 1.8   |
| <b>Financial investments (AFS)</b>   |   |   |
| Securities   | 0.5   | - 0.5   |
| Cash CDOs  | 0.4   | - 0.4   |
| Bonds  | 0.1   | - 0.1   |
| Equity investments   | 27.8  | - 25.8  |
| <b>Total</b>   | <b>35.6</b>   | <b>- 33.6</b>   |

31 Dec. 2012

| EUR million  | Positive changes<br>in fair value   | Negative changes<br>in fair value   |
|--|---|---|
|  | Net gains/losses from<br>financial instruments<br>measured at fair value<br>Revaluation reserve | Net gains/losses from<br>financial instruments<br>measured at fair value<br>Revaluation reserve |
| <b>Financial instruments measured at fair value through profit or loss</b> |   |   |
| Derivatives  | 5.0   | - 5.0   |
| Securities   | 6.2   | - 6.2   |
| Cash CDOs  | 4.1   | - 4.1   |
| Synthetic CDOs   | 0.1   | - 0.1   |
| Bonds  | 2.0   | - 2.0   |
| <b>Financial investments (AFS)</b>   |   |   |
| Securities   | 0.8   | - 0.8   |
| Cash CDOs  | 0.5   | - 0.5   |
| Bonds  | 0.3   | - 0.3   |
| Equity investments   | 34.1  | - 29.5  |
| <b>Total</b>   | <b>46.1</b>   | <b>- 41.5</b>   |



The interest-interest correlations classified as non-observable are changed as follows in a stress scenario: The form of the correlation matrix is changed in line with historical correlations from a stress period (sub-prime/euro crisis), on top of deflections of +/- 10% correlation (absolute). The correlations for credit derivatives that are classified as non-observable are changed by + 10% (absolute) or - 30% (absolute) in the stress scenario.

The effects of the relative uncertainty on certain financial instruments classified in Level III were not determined. These are mainly financial instruments measured at fair value that are already written off, as well as closed-out positions. In the absence of material uncertainties from the non-observable parameters, no sensitivities were applied. Furthermore, for part of the financial instruments, valuation uncertainties were not determined as a result of the low materiality of the non-observable parameters. For most of the securities 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.

#### 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. The Day one profit or loss is distributed over the term of the financial instrument through profit or loss. The following table shows the development of the Day one profit:

| EUR million  | 30 Jun 2013 | 31 Dec. 2012 |
|--|-------------|--------------|
| Balance as at 1 January  | 5           | 4            |
| New transactions (additions)   | 0           | 2            |
| Gains/losses recognized in the P&L during the reporting period (reversals) | - 1         | - 1          |
| <b>Total Balance</b>   | <b>4</b>    | <b>5</b>     |

### 36. Reconciliation of carrying amounts to categories.

30 June 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     | 52 559                |                    |                  |                   |                   | 52 559  |
| Loans and advances to customers after allowances for losses on loans and advances | 110 348               |                    |                  |                   |                   | 110 348 |
| Financial assets measured at fair value through profit or loss <sup>1)</sup>      |                       |                    | 78 836           | 2 463             |                   | 81 299  |
| Financial investments   | 21 807                | 24 197             |                  |                   |                   | 46 004  |
| Non-current assets held for sale and disposal groups <sup>1)</sup>                | 1 094                 | 97                 | 3                | 0                 |                   | 1 194   |
| Deposits from banks   |                       |                    |                  |                   | 66 833            | 66 833  |
| Deposits from customers   |                       |                    |                  |                   | 81 253            | 81 253  |
| Securitized liabilities   |                       |                    |                  |                   | 55 906            | 55 906  |
| Financial liabilities measured at fair value through profit or loss <sup>2)</sup> |                       |                    | 64 629           | 6 781             |                   | 71 410  |
| Liabilities from disposal groups <sup>2)</sup>                                    |                       |                    | 3                | 0                 | 959               | 962     |
| Subordinated capital  |                       |                    |                  |                   | 6 813             | 6 813   |

1) Excluding Positive fair values from hedging derivatives.

2) Excluding Negative fair values from hedging derivatives.

31 Dec. 2012

| 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     | 50 044                |                    |                  |                   |                   | 50 044  |
| Loans and advances to customers after allowances for losses on loans and advances | 114 687               |                    |                  |                   |                   | 114 687 |
| Financial assets measured at fair value through profit or loss <sup>1)</sup>      |                       |                    | 101 375          | 3 063             |                   | 104 438 |
| Financial investments   | 23 829                | 28 942             |                  |                   |                   | 52 771  |
| Non-current assets held for sale and disposal groups <sup>1)</sup>                | 0                     | 16                 | 0                | 0                 |                   | 16      |
| Deposits from banks   |                       |                    |                  |                   | 64 236            | 64 236  |
| Deposits from customers   |                       |                    |                  |                   | 85 332            | 85 332  |
| Securitized liabilities   |                       |                    |                  |                   | 61 589            | 61 589  |
| Financial liabilities measured at fair value through profit or loss <sup>2)</sup> |                       |                    | 85 357           | 7 484             |                   | 92 841  |
| Subordinated capital  |                       |                    |                  |                   | 9 715             | 9 715   |

1) Excluding Positive fair values from hedging derivatives.

2) Excluding Negative fair values from hedging derivatives.

### 37. Reclassifications.

Modifications to IAS 39 and IFRS 7 (regarding reclassification) were passed by the IASB and adopted by the EU in the course of 2008.

In the LBBW Group, certain trading assets and AFS securities, were reclassified as loans and receivables as at 1 July 2008 in line with these changes. No further securities were reclassified in the subsequent financial years.

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

| EUR million   | 30 June 2013<br>Carrying<br>amount | 30 June 2013<br>Fair value | 31 Dec. 2012<br>Carrying<br>amount | 31 Dec. 2012<br>Fair value | 1 July 2008<br>Nominal<br>value | 1 July 2008<br>Carrying<br>amount |
|---|------------------------------------|----------------------------|------------------------------------|----------------------------|---------------------------------|-----------------------------------|
| <b>Held for trading reclassified as<br/>loans and receivables</b>   | <b>76</b>                          | <b>71</b>                  | <b>113</b>                         | <b>100</b>                 | <b>935</b>                      | <b>913</b>                        |
| of which securitization transactions                                | 38                                 | 32                         | 55                                 | 43                         | 134                             | 128                               |
| of which other securities   | 38                                 | 39                         | 58                                 | 57                         | 801                             | 785                               |
| <b>Available for sale reclassified as<br/>loans and receivables</b> | <b>5 264</b>                       | <b>4 736</b>               | <b>6 534</b>                       | <b>5 898</b>               | <b>29 023</b>                   | <b>27 373</b>                     |
| of which securitization transactions                                | 4 448                              | 3 909                      | 5 490                              | 4 839                      | 14 643                          | 13 302                            |
| of which other securities   | 816                                | 827                        | 1 044                              | 1 059                      | 14 380                          | 14 071                            |
| <b>Total</b>  | <b>5 340</b>                       | <b>4 807</b>               | <b>6 647</b>                       | <b>5 998</b>               | <b>29 958</b>                   | <b>28 286</b>                     |

The nominal volume of the securities reclassified out of the held-for-trading category was EUR 83 million as at 30 June 2013 (31 December 2012: EUR 120 million), of which EUR 39 million related to securitized transactions (31 December 2012: EUR 57 million) and EUR 44 million to other securities (31 December 2012: EUR 63 million).

Securities reclassified as available for sale had a nominal volume of EUR 5 673 million as at 30 June 2013 (31 December 2012: EUR 7 091 million), of which EUR 4 854 million related to securitization transactions (31 December 2012: EUR 6 047 million) and EUR 819 million to other securities (31 December 2012: EUR 1 044 million).

The reclassified portfolio contributed EUR –44 million to the Net consolidated profit/loss in the first half of 2013 (30 June 2012: EUR 16 million). If there had been no reclassifications, the positive contribution to results would have been EUR 39 million as at 30 June 2013 (30 June 2012: EUR 80 million). The fair value changes of reclassified AFS securities would have eased the Revaluation reserve by EUR 211 million (30 June 2012: easing of EUR 319 million).

### 38. Breakdown of derivatives volume.

| 30 June 2013                            |                   | Nominal values – remaining maturities |                                  |                      |                  | Fair value    |               |
|---|-------------------|---------------------------------------|----------------------------------|----------------------|------------------|---------------|---------------|
| EUR million                             | Up to<br>3 months | Between<br>3 months<br>and 1 year     | Between<br>1 year<br>and 5 years | More than<br>5 years | Total            | Positive      | Negative      |
| Currency-related derivatives            | 80 868            | 45 287                                | 38 387                           | 10 237               | 174 779          | 2 691         | 2 858         |
| Interest rate-related derivatives       | 135 921           | 288 745                               | 457 989                          | 383 684              | 1 266 339        | 30 498        | 28 086        |
| Credit derivatives                      | 4 760             | 14 064                                | 33 022                           | 1 764                | 53 610           | 337           | 611           |
| Share/index derivatives                 | 1 890             | 5 116                                 | 7 011                            | 1 754                | 15 771           | 335           | 611           |
| Commodity-related and other derivatives | 856               | 1 020                                 | 57                               | 0                    | 1 933            | 146           | 102           |
| <b>Total</b>                            | <b>224 295</b>    | <b>354 232</b>                        | <b>536 466</b>                   | <b>397 439</b>       | <b>1 512 432</b> | <b>34 007</b> | <b>32 268</b> |

| 31 Dec. 2012                            |                   | Nominal values – remaining maturities |                                  |                      |                  | Fair value    |               |
|---|-------------------|---------------------------------------|----------------------------------|----------------------|------------------|---------------|---------------|
| EUR million                             | Up to<br>3 months | Between<br>3 months<br>and 1 year     | Between<br>1 year<br>and 5 years | More than<br>5 years | Total            | Positive      | Negative      |
| Currency-related derivatives            | 98 294            | 46 629                                | 43 713                           | 10 620               | 199 256          | 4 033         | 3 765         |
| Interest rate-related derivatives       | 182 135           | 345 302                               | 532 921                          | 462 736              | 1 523 094        | 54 865        | 53 507        |
| Credit derivatives                      | 1 997             | 15 551                                | 37 447                           | 2 397                | 57 392           | 483           | 855           |
| Share/index derivatives                 | 853               | 114 932                               | 5 441                            | 1 734                | 122 960          | 306           | 582           |
| Commodity-related and other derivatives | 805               | 1 680                                 | 1 179                            | 0                    | 3 664            | 54            | 57            |
| <b>Total</b>                            | <b>284 084</b>    | <b>524 094</b>                        | <b>620 701</b>                   | <b>477 487</b>       | <b>1 906 366</b> | <b>59 741</b> | <b>58 766</b> |

### 39. 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 (borrower) or lent in 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.

| 30 June 2013  |  | Transferred assets continue to be recognized in full |   |
|---|--|--|---|
| EUR million   |  | Carrying amount of transferred assets                | Carrying amount of associated liabilities |
| Trading assets  |  | 6 219  | 4 993                                     |
| Financial investments (AfS)   |  | 10 141   | 3 943                                     |
| Assets carried at amortized cost  |  |  |   |
| Loans and advances to banks after allowances for losses on loans and advances     |  | 16 622   | 21 159                                    |
| Loans and advances to customers after allowances for losses on loans and advances |  | 7 953  | 643                                       |
| Financial investments (LaR)   |  | 23   | 23  |

| 31 Dec. 2012  |  | Transferred assets continue to be recognized in full |   |
|---|--|--|---|
| EUR million   |  | Carrying amount of transferred assets                | Carrying amount of associated liabilities |
| Trading assets  |  | 7 953  | 6 219                                     |
| Financial assets designated at fair value   |  | 43   | 43  |
| Financial investments (AfS)   |  | 14 774   | 7 576                                     |
| Assets carried at amortized cost  |  |  |   |
| Loans and advances to banks after allowances for losses on loans and advances     |  | 16 338   | 20 998                                    |
| Loans and advances to customers after allowances for losses on loans and advances |  | 7 165  | 0   |

As at the reporting date, there are no issues that would have led to continuing involvement despite the transfer.

#### 40. Information on issuing activities.

30 June 2013

| EUR million               | Number       | Volume         | Primary sale <sup>1)</sup> | Repayments    |
|---------------------------|--------------|----------------|----------------------------|---------------|
| Covered bonds             | 11           | 118            | 116                        | 3 428         |
| Money market transactions | 96           | 3 969          | 3 969                      | 4 849         |
| Other bearer bonds        | 2 792        | 139 756        | 2 693                      | 4 098         |
| Other bonds               | 0            | 0              | 0                          | 30            |
| <b>Total</b>              | <b>2 899</b> | <b>143 843</b> | <b>6 778</b>               | <b>12 405</b> |

1) Primary sale also includes volume from previous years.

31 Dec. 2012

| EUR million               | Number       | Volume         | Primary sale <sup>1)</sup> | Repayments    |
|---------------------------|--------------|----------------|----------------------------|---------------|
| Covered bonds             | 69           | 3 220          | 2 936                      | 8 871         |
| Money market transactions | 270          | 12 129         | 12 129                     | 11 728        |
| Other bearer bonds        | 5 922        | 305 846        | 6 755                      | 8 997         |
| Other bonds               | 0            | 0              | 0                          | 105           |
| <b>Total</b>              | <b>6 261</b> | <b>321 195</b> | <b>21 820</b>              | <b>29 701</b> |

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 11 323 million (previous year: EUR 11 608 million) were offset against the debentures issued.

## Other notes.

### 41. 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. The figures stated are the current outstanding balances:

| 30 June 2013  |               |  |                               |            |                |                                 |
|---|---------------|--|-------------------------------|------------|----------------|---------------------------------|
| EUR million   | Share-holders | 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   | 510           | 0  | 178                           | 224        | 0              | 0                               |
| Loans and advances to customers                                     | 3 478         | 3  | 569                           | 157        | 77             | 36                              |
| Allowances for losses on loans and advances                         | 0             | 0  | -10                           | -5         | -3             | 0                               |
| Financial assets measured at fair value through profit or loss      | 3 496         | 0  | 1 484                         | 178        | 41             | 0                               |
| Financial investments   | 32            | 0  | 103                           | 17         | 3              | 12 958                          |
| <b>Total assets</b>   | <b>7 516</b>  | <b>3</b>   | <b>2 324</b>                  | <b>571</b> | <b>118</b>     | <b>12 994</b>                   |
| Deposits from banks   | 6 072         | 0  | 55                            | 201        | 0              | 0                               |
| Deposits from customers   | 155           | 3  | 278                           | 88         | 18             | 13 141                          |
| Financial liabilities measured at fair value through profit or loss | 2 140         | 0  | 43                            | 155        | 0              | 0                               |
| Subordinated capital  | 1 221         | 0  | 100                           | 7          | 0              | 0                               |
| <b>Total equity and liabilities</b>                                 | <b>9 588</b>  | <b>3</b>   | <b>476</b>                    | <b>451</b> | <b>18</b>      | <b>13 141</b>                   |
| <b>Contingent liabilities</b>                                       | <b>0</b>      | <b>0</b>   | <b>14</b>                     | <b>26</b>  | <b>0</b>       | <b>7</b>                        |

  

| 31 Dec. 2012  |               |  |                               |            |                |                                 |
|---|---------------|--|-------------------------------|------------|----------------|---------------------------------|
| EUR million   | Share-holders | 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  | 81                            | 228        | 0              | 0                               |
| Loans and advances to customers                                     | 3 501         | 4  | 759                           | 231        | 42             | 38                              |
| Allowances for losses on loans and advances                         | 0             | 0  | -38                           | -7         | -1             | 0                               |
| Financial assets measured at fair value through profit or loss      | 3 859         | 0  | 1 663                         | 161        | 5              | 0                               |
| Financial investments   | 33            | 0  | 100                           | 17         | 3              | 12 722                          |
| <b>Total assets</b>   | <b>7 581</b>  | <b>4</b>   | <b>2 565</b>                  | <b>630</b> | <b>49</b>      | <b>12 760</b>                   |
| Deposits from banks   | 5 891         | 0  | 35                            | 213        | 0              | 0                               |
| Deposits from customers   | 206           | 5  | 255                           | 104        | 15             | 12 758                          |
| Financial liabilities measured at fair value through profit or loss | 2 360         | 0  | 38                            | 94         | 0              | 0                               |
| Subordinated capital  | 3 734         | 0  | 100                           | 10         | 0              | 0                               |
| <b>Total equity and liabilities</b>                                 | <b>12 191</b> | <b>5</b>   | <b>428</b>                    | <b>421</b> | <b>15</b>      | <b>12 758</b>                   |
| <b>Contingent liabilities</b>                                       | <b>0</b>      | <b>0</b>   | <b>17</b>                     | <b>22</b>  | <b>0</b>       | <b>0</b>                        |

#### 42. Contingent liabilities and other obligations.

| EUR million                       | 30 June 2013  | 31 Dec. 2012  |
|-----------------------------------|---------------|---------------|
| <b>Contingent liabilities</b>     | <b>6 069</b>  | <b>6 476</b>  |
| Sureties and guarantee agreements | 6 060         | 6 464         |
| Other                             | 9             | 12            |
| <b>Other obligations</b>          | <b>22 848</b> | <b>22 887</b> |
| Irrevocable loan commitments      | 22 366        | 22 381        |
| Other                             | 482           | 506           |
| <b>Total</b>                      | <b>28 917</b> | <b>29 363</b> |

Contingent liabilities and other obligations held by a held for sale fully consolidated subsidiary resulted in a further increase of EUR 127 million (previous year: EUR 0 million) in the Group's off-balance-sheet obligations (see Note 21). Of this figure of EUR 127 million, a sum of EUR 70 million is apportionable to sureties and guarantee agreements and EUR 57 million to irrevocable loan commitments.

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 half year under review.

There are additional funding obligations to the Sicherungsreserve der Landesbanken und Girozentralen (Guarantee Fund of the Landesbanken and Central Savings Banks) totaling EUR 230 million (previous year: EUR 230 million). Payment of these additional contributions can be demanded immediately in the event that an institution requires assistance.

#### 43. Own funds.

| EUR million                                 | 30 June 2013  | 31 Dec. 2012  |
|---|---------------|---------------|
| <b>Equity</b>                               | <b>18 378</b> | <b>18 828</b> |
| Core capital (Tier 1)                       | 14 769        | 14 675        |
| Supplementary capital (Tier 2)              | 3 360         | 3 696         |
| Tier 3 capital                              | 249           | 457           |
| <b>Qualifying items</b>                     | <b>89 188</b> | <b>95 776</b> |
| Risk-weighted counterparty risk items       | 73 825        | 78 538        |
| Market risk positions                       | 10 763        | 10 963        |
| Operational risk                            | 4 600         | 6 275         |
| <b>Total ratio in accordance with SolvV</b> | <b>20.6%</b>  | <b>19.7%</b>  |
| <b>Tier 1 capital ratio</b>                 | <b>16.6%</b>  | <b>15.3%</b>  |

The increase in core capital is due to various factors, particularly a smaller amount of deductible items.

The supplementary capital as well as Tier 3 capital contracted due to maturities or a drop below a remaining maturity of two years.

LBBW is continuing to run off risk-weighted assets in connection with the state aid proceedings approved by the EU Commission in 2009. This is reflected in the reduced capital requirements particularly for risk-weighted counterparty risk items.

#### 44. Events after the balance sheet date.

In the second half of 2013, the Bank gained proceeds in the mid double-digit EUR million range from the partial repayment of a credit exposure in July 2013.

Additional disclosures in accordance  
with Section 315a HGB.

**45. Executive and supervisory bodies.**

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**

**HANS-JOACHIM STRÜDER**  
until 31 March 2013

**Supervisory Board.**

**Chairman.**

**HANS WAGENER**  
Auditor, Tax Consultant

**Deputy Chairman.**

**DR. NILS SCHMID MdL**  
Deputy Minister-President,  
Finance Minister of the  
State of Baden-Württemberg

**Members.**

**HANS BAUER**  
Employee Representative  
of Landesbank Baden-Württemberg

**CARSTEN CLAUS**  
from 1 August 2013  
Savings Bank Director, 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 Weil am Rhein

**WALTER FRÖSCHLE**  
Employee Representative  
of Landesbank Baden-Württemberg

**HELMUT HIMMELSBACH**  
Chairman of the Supervisory Board  
of Südwestdeutsche Salzwerke AG

**PROFESSOR DR. SC. TECHN.  
DIETER HUNDT**  
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**  
from 7 January 2013  
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  
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)

**PROFESSOR DR. WOLFGANG SCHUSTER**  
until 6 January 2013  
Retired Lord Mayor of the  
State Capital Stuttgart

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

**VOLKER WIRTH**  
until 30 June 2013  
Savings Bank Director, Chairman  
of the Board of Managing Directors  
of Sparkasse Singen-Radolfzell

**NORBERT ZIPF**  
Employee Representative  
of Landesbank Baden-Württemberg



# Further information.

## Responsibility statement.

To the best of our knowledge, and in accordance with the applicable framework for interim financial reporting, the consolidated interim financial statements give a true and fair view of the net assets, financial position and results of operations of the Group, and the interim group management report gives a true and fair view of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected future development of the Group in the remainder of the financial year.

Stuttgart, Karlsruhe, Mannheim, and Mainz, 6 August 2013

The Board of Managing Directors



HANS-JÖRG VETTER  
Chairman



MICHAEL HORN  
Deputy Chairman



KARL MANFRED LOCHNER



INGO MANDT

## Review report.

To Landesbank Baden-Württemberg, Stuttgart, Karlsruhe, Mannheim, and Mainz.

We have reviewed the condensed interim consolidated financial statements of Landesbank Baden-Württemberg, Stuttgart, Karlsruhe, Mannheim, and Mainz – comprising the condensed income statement, statement of total comprehensive income, balance sheet, statement of changes in equity, condensed cash flow statement, and the selected notes to the consolidated interim financial statements – together with the interim group management report of Landesbank Baden-Württemberg, Stuttgart, Karlsruhe, Mannheim, and Mainz, for the period from 1 January 2013 to 30 June 2013 that are part of the semi annual financial report according to § 37w WpHG (Wertpapierhandelsgesetz: German Securities Trading Act). The preparation of the condensed interim consolidated financial statements in accordance with those IFRS applicable to interim financial reporting as adopted by the EU, and of the interim group management report in accordance with the requirements of the WpHG applicable to interim group management reports, is the responsibility of the Company's management. Our responsibility is to issue a report on the condensed interim consolidated financial statements and on the interim group management report based on our review.

We conducted our review of the condensed interim consolidated financial statements and the interim group management report in accordance with German generally accepted standards for the review of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the review so that we can preclude through critical evaluation, with a certain level of assurance, that the condensed interim consolidated financial statements have not been prepared, in material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the EU, and that the interim group management report has not been prepared, in material respects, in accordance with the requirements of the WpHG applicable to interim group management reports. A review is limited primarily to inquiries of company employees and analytical assessments and therefore does not provide the assurance attainable in a financial statement audit. Since, in accordance with our engagement, we have not performed a financial statement audit, we cannot issue an auditor's report.

Based on our review, no matters have come to our attention that cause us to presume that the condensed interim consolidated financial statements have not been prepared, in material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the EU, or that the interim group management report has not been prepared, in material respects, in accordance with the requirements of the WpHG applicable to interim group management reports.

Stuttgart, 9 August 2013

KPMG AG  
Wirtschaftsprüfungsgesellschaft



KOCHOLL  
Wirtschaftsprüfer



EISELE  
Wirtschaftsprüfer

## Note regarding forward-looking statements.

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

The LBBW Group assumes no obligation to continuously update any forward-looking statements, as these are based solely on the circumstances valid on the day of publication.

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