Disclosure report in accordance with CRR/CRD IV.

As at 31. December 2014.

Landesbank Baden-Württemberg

2014

1 Fundamentals.

The Basel Committee on Banking Supervision has published a comprehensive package of reforms known as »Basel III« for the purpose of reinforcing regulation, supervision and risk management in the banking sector. Among other things, the reforms provide for international standards to be applied to banks' risk weighted capital, the introduction of a global liquidity standard, the calculation of a leverage ratio and broader disclosure requirements.

The Basel rules have been implemented as European law in Regulation (EU) No. 575/2013 of the European Parliament and of the Council (CRR - Capital Requirements Regulation) of 26 June 2013, taking effect from 1 January 2014. The rules contained in the supplementary Directive 2013/36/EU (CRD IV - Capital Requirements Directive) was transposed into German national law with the publication of the CRD IV Implementation Act in »Bundesgesetzblatt« on 28 August 2013.

Upon taking effect, the new rules also result in changes to the disclosure requirements hitherto governed by the German Solvency Regulation (SolvV). The closing date of this report is 31 December 2014, meaning that it has been prepared for the first time in accordance with the CRR requirements applicable from 1 January 2014.

Landesbank Baden-Württemberg (LBBW) applies the internal ratings-based approach (basic IRB approach) approved by the German Federal Financial Supervisory Authority (BaFin) for calculating capital backing for counterparty risks arising from the main exposure classes. Capital backing for general interest rate risks, general equity price risks and related option price risks is determined on the basis of an internal market price risk model, which is also approved by the competent authorities.

LBBW prepares the disclosure report in aggregate form at the Group level in its function as a parent company. This report is based on the International Financial Reporting Standards (IFRS). The previous reports were based on HGB (German Commercial Code). In terms of qualitative disclosures, LBBW makes use of the possibility of referring to other disclosure reports to the extent that the information which they contain has already been published under other disclosure requirements.

In contrast to the LBBW Group's annual report, which also includes a risk and opportunity report, this report focuses on the regulatory requirements. In addition, the separate financial statements prepared in accordance with HGB and the remuneration report required under the Remuneration Ordinance for Institutions (Instituts-Vergütungsverordnung), which also includes the disclosures required under Article 450 CRR, are published on LBBW's website.

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

2 Risk management. (Article 435 CRR)

Risk management objectives and policies.

The risk management system is determined by the Board of Managing Directors and the Risk Committee in risk strategies consistent with the business strategy.

Within the Group risk strategy, risk strategy guidelines which apply Group-wide across all risk categories are determined via risk tolerance. It is defined by determining the fundamental conditions underlying risk strategy, strategic limits, liquidity risk tolerance and the guidelines for risk management and must be adhered to in all business.

In addition, the specific risk strategies approved for each material risk type document the current and target risk profile of LBBW, specify customer-, product- and market-specific guidelines and thereby create the framework for medium-term planning together with the business strategy. The operative implementation of these guidelines is accompanied by variance analyses, business area dialogs, monthly earnings analyses as well as strategic and operative limit systems.

Further details on the risk situation, risk management function, the strategies and processes for measuring and controlling risks, risk reporting and the principles for hedging and mitigating risks can be found in the annual report. It also includes a declaration on the appropriateness of the risk management processes.

Corporate governance rules.

The maximum number of directorships which members of the Board of Managing Directors and the Supervisory Board may hold is determined by the German Banking Act (KWG). Under Section 25c of the German Banking Act, the managers of a systemically significant CRR institution are not permitted to act as the managing director of another company or to be a member of the management or supervisory body of more than two companies.

For this purpose, multiple directorships count as a single one if they are held with companies

- which belong to one and the same bank group, financial holding group or mixed financial holding group,
- belong to the same institutional protection system or
- hold a significant share of the institution.

A significant share is deemed to arise if at least 10% of the capital and/or voting rights accrue to the CRR institution either directly and/or via subsidiaries.

Under this definition, the seven members of LBBW's Board of Managing Directors hold a total of eleven supervisory directorships.

Under Section 25d of the German Banking Act, the members of the supervisory body of a systemically significant CRR institution are not permitted to simultaneously act as the managing director of another company or to be a member of the management or supervisory body of more than two companies. Similarly, a person who is a member of the management or supervisory body of more than four companies is disqualified from being a member of the supervisory body of a CRR institution.

The members of the Board of Managing Directors of Landesbank Baden-Württemberg hold the maximum number of directorships permitted under the German Banking Act. The members of the Supervisory Board have been duly informed of the maximum number of directorships permitted under the German Banking Act.

LBBW observes the requirements under Section 25c (2) No. 1 and Section 25d (3) No. 1 of the German Banking Act with respect to the non-compatibility of management and supervisory directorships.

Section 25c of the German Banking Act stipulates that managing directors must hold the necessary professional qualifications, be trustworthy and dedicate sufficient time to performing their functions. They are assumed to possess the necessary professional qualifications if they have sufficient theoretical and practical knowledge of the business concerned as well as managerial experience.

The Board of Managing Directors consists of several members. The members of the Board of Managing Directors are appointed for a maximum period of five years, after which they may be re-appointed. A resolution approving the re-appointment of members of the Board of Managing Directors must be passed no earlier than twelve and no later than six months before the expiry of the previous appointment. Members of the Board of Managing Directors who have passed the age of 60 may be appointed or re-appointed for a period not extending beyond the date on which they turn 65. In exceptional cases, the Supervisory Board may also pass a resolution approving an appointment or re-appointment beyond this date.

The selection process is governed by the statutory provisions contained in the German Banking Act and the bylaws of the Executive Committee, which performs the duties of a nomination committee in accordance with Section 25d (11) of the German Banking Act.

Under these rules, the Executive Committee is responsible for preparing the Supervisory Board's decisions on the appointment and dismissal of the members of the Board of Managing Directors as well as long-term successor planning for the Board of Managing Directors. To this end, it particularly identifies candidates for a position on the Board of Managing Directors and, in doing so, takes account of the balance and diversity of the knowledge, skills and experience of all the members of the Board of Managing Directors, prepares a job description with a candidate profile and specifies the amount of time required for performing the task.

The professional backgrounds of the members of the Board of Managing Directors are described in detail on LBBW's website.

LBBW's Supervisory Board has 21 members. The Chairman and Deputy Chairman of the Supervisory Board are elected from the Supervisory Board's own number on the basis of a proposal made by the shareholders' meeting in the absence of any requirements to the contrary in the Landesbank Baden-Württemberg Act. The members of the Supervisory Board must be reliable, possess the necessary expertise to assess and monitor the Bank's business in the performance of their supervisory duties and have sufficient time to perform their duties. They are not bound by any instructions. They must perform their duties selflessly and responsibly.

At least one member of the Supervisory Board must possess expertise in the areas of accounting and the auditing of financial statements.

In the absence of any requirements to the contrary in the Landesbank Baden-Württemberg Act, the members of the Supervisory Board cannot be appointed for a period exceeding the conclusion of the annual general meeting at which a resolution is passed to ratify the activities of the Supervisory Board for the fourth year after the commencement of their term of office. They must be re-appointed no later than one month before the expiry of their term of office. Repeated appointments are possible. Upon the expiry of their term of office, the members of the Supervisory Board continue to perform their duties until the new Supervisory Board has convened.

The selection process is governed by the statutory provisions contained in the German Banking Act and the bylaws of the Executive Committee, which performs the duties of a nomination committee in accordance with Section 25d (11) of the German Banking Act.

Under these rules, the Executive Committee is responsible for preparing proposals for the election of members of the Supervisory Board. To this end, the Executive Committee takes account of the balance and variety of knowledge, capabilities and experience of all the members of the Supervisory Board, prepares a job description with a candidate profile and specifies the amount of time required for performing the task. The members of the Supervisory Board are elected by the shareholders' meeting unless they are required to be elected by the employees and in the absence of any requirements to the contrary in the Landesbank Baden-Württemberg Act. The owners have the right to submit election proposals.

Moreover, the Executive Committee has defined a target for encouraging a greater proportion of women on the Supervisory Board as well as a strategy for reaching this target, which was presented to the Supervisory Board in December 2014.

Furthermore, the Executive Committee assists the Supervisory Board with the regular evaluation, which must be conducted at least once a year, of the structure, size, composition and performance of the Board of Managing Directors and the Supervisory Board and submits relevant recommendations to the Supervisory Board. In doing so, the Executive Board ensures that individual persons or groups are unable to exert any influence on the decision-making processes within the Board of Managing Directors liable to have an adverse effect on the Bank.

In addition, the Executive Committee assists the Supervisory Board with the regular evaluation, which must be conducted at least once a year, of the knowledge, skills and experience of the individual members of the Board of Managing Directors and the Supervisory Board as well as of the two boards in their entirety.

The Supervisory Board has established a Risk Committee from its own number. The Risk Committee comprises eight members. It elects a Chairman and a Deputy Chairman from its own number. The Chairman and the Deputy Chairman of the Risk Committee must possess banking expertise. The Risk Committee is managed by the Chairman or, in his absence, the Deputy Chairman.

At a total of ten meetings in 2014, the Risk Committee held intensive discussions on the Bank's risk situation and risk management as well as its exposure requiring disclosure in accordance with the law, the articles of association and the bylaws, granting its approval where this was required in individual cases. Specifically, the Committee dealt with the Bank's credit, market price, liquidity, equity investment, legal, reputation and operational risks, which together with calculations of the Bank's risk-bearing capacity formed part of the regular risk reports of the Board of Managing Directors. Over and above this, the Committee confirmed that the incentives set by the remuneration system take account of the risk, capital and liquidity structure of the Landesbank as well as of the probability and due dates of earnings. The Risk Committee discussed the business strategy and, based on this, the uniform Group, market price and liquidity risk strategy and operational risk strategy in 2015 with the Board of Managing Directors. Various portfolios were examined in detail in the light of economic or regulatory developments. This also included regular reporting on the progress made in winding down LBBW's credit substitute business.

The Chairman of the Committee regularly reported to the members of the Supervisory Board on the Risk Committee's activities and the resolutions which it passed.

At its meetings, the Board of Managing Directors was kept regularly informed in detail and with minimum delay of LBBW's risk situation and risk management as well as the exposure requiring approval under the Bank's rules and, where necessary, granted its approval.

3 Scope. (Article 436 CRR)

Unless otherwise indicated, all disclosures in this report relate to the regulatory basis of consolidation of the LBBW Group in accordance with Section 10a of the German Banking Act in conjunction with Article 18 et seq. CRR as at 31 December 2014.

Differences from the IFRS basis of consolidation arise above all with regard to the following aspects:

- Companies outside the financial sector are also consolidated in the IFRS consolidated financial statements if it is possible to exercise control in accordance with IFRS. However, these companies are outside the regulatory basis of consolidation.
- Conversely, companies which do not meet the consolidation criteria in accordance with IFRS or are not consolidated due to being of minor significance are also included in the basis of consolidation in accordance with KWG.

The option provided for in Article 7 (3) CRR, under which individual institutions may be excluded if organizational and procedural requirements of certain regulations for equity funding and regulatory reportability at an institution level are satisfied (waiver regulation), is not used within the LBBW Group.

There are no limitations or other significant obstacles to carrying forward funds or liable equity capital to be taken into account in the LBBW Group.

As at 31 December 2014, no non-consolidated subsidiary had less than the prescribed equity.

In the following table, the main companies included in the regulatory basis of consolidation in accordance with Article 436 CRR are classified according to the type of business and its regulatory treatment and are shown alongside their classification in the basis of consolidation under IFRS. Both bases of consolidation include numerous further companies which, however, are not disclosed here due to their immateriality. The companies are classified on the basis of the definitions set out in Article 4 CRR.

Description	Name	Regulatory treatment Consolidation		Consolidation in accordance with accounting standard	
		Full	Proportional	Full	Accounted for using the equity method
Banks					
	Landesbank Baden-Württemberg	X		X	
	MKB Mittelrheinische Bank GmbH	X		X	
	Vorarlberger Landes- und Hypothekenbank AG				X
Financial institutions					
	ALVG Anlagenvermietung GmbH	X		X	
	BW Capital Markets Inc.	X		X	
	BWK GmbH Unternehmensbeteiligungsgesellschaft				X
	CFH Beteiligungsgesellschaft mbH	X		X	
	EAST Portfolio s.r.o.	X		X	
	LBBW Asset Management Investmentgesellschaft mbH	X		X	
	LBBW Dublin Management GmbH	X		X	
	LBBW México	X		X	
	LBBW Venture Capital GmbH	X		X	
	LHI Leasing GmbH		X		X
	LRP Capital GmbH	X		X	
	SL Financial Services Corporation	X			
	Süd Beteiligungen GmbH	X		X	
	Süd KB Unternehmensbeteiligungsgesellschaft mbH	X		X	
	SüdFactoring GmbH	X		X	
	Süd-Kapitalbeteiligungs-Gesellschaft mbH	X		X	
	SüdLeasing GmbH	X		X	
	SÜDRENTING ESPANA, S.A.	X			
Providers of ancillary services					
	LBBW Grundstücksverwaltungsgesellschaft mbH & Co. KG Objekt am Pariser Platz Stuttgart	X		X	
	LBBW Grundstücksverwaltungsgesellschaft mbH & Co. OHG Objekt Am Hauptbahnhof Stuttgart	X		X	
	LBBW Service GmbH	X		X	

Figure 1: Main consolidated companies (Article 436 (b) CRR).

4 Own funds. (Articles 437 and 438 CRR)

Structure of own funds and applicable transitional provisions.

The following table sets out the LBBW Group's own funds pursuant to IFRS in accordance with Part 2 of the CRR as well as the applicable deductions and transitional provisions.

The »Reference« column in Figure 2 reconciles the components of the Bank's own funds under CRR with the balance sheet. Figure 4 shows the relevant items of the balance sheet with figures according to IFRS and FINREP (Financial Reporting).

EUR million Capital instruments	Amount on date of disclosure 31 Dec. 2014	Reference to Articles in Regulation (EU) No. 575/2013	Amounts which come within the scope of Regulation (EU) No. 575/2013 or prescribed residual amount in accordance with Regulation (EU) No. 575/2013	Reference
Common Equity Tier 1: instruments and reserves				
Capital instruments and related premiums	11,724	26 (1), 27, 28, 29, EBA directory in accordance with Article 26 (3)	0	j+k
of which share capital	11,724			
Retained earnings	655	26 (1) (c)		l
Cumulative comprehensive income (and other reserves comprising unrealized gains and losses under the applicable accounting standards)	228	26 (1)		m+n+o
Fund for general banking risks	0	26 (1) (f)		
Items as defined in Article 484 (3) plus the related premium no longer eligible for inclusion in CET1	0	486 (2)		
Government capital allocations subject to grandfathering rights until 1 January 2018	0	483 (2)		
Non-controlling interests (admissible amount in consolidated CET1)	0	84, 479, 480	0	
Independently audited interim gains less all foreseeable charges or dividends	0	26 (2)		
Common Equity Tier 1 (CET1) before regulatory adjustments	**12,607**			
Common Equity Tier 1 (CET1): regulatory adjustments				
Additional measurement adjustments (negative amount)	– 138	34, 105		
Intangible assets (less corresponding tax liabilities) (negative amount)	– 98	36 (1) (b), 37, 472 (4)	– 391	a+b
Deferred tax assets whose recoverability depends on future profitability, except those arising from temporary differences (less corresponding tax liabilities if the conditions contained in Article 38 (3) are satisfied) (negative amount)	0	36 (1) (c), 38, 472 (5)	– 491	c
Reserves from gains or losses from the fair-value measurement of cash flow hedges	0	33 (a)		
Negative amounts from the calculation of expected losses	– 23	36 (1) (d), 40, 150	– 91	
Increase in own funds arising from securitized assets (negative amount)	0	32 (1)		
Gains or losses arising from changes in the Bank's own credit rating from own liabilities measured at fair value	– 65	33 (b)	0	
Gains and losses from derivative liabilities measured at fair value arising from the Bank's own credit risk	– 23	33 (c)	– 90	
Defined-benefit pension fund assets (negative amount)	0	36 (1) (e), 41, 472 (7)	0	
Direct and indirect holdings by an institution of its own Common Equity Tier 1 instruments (negative amount)	0	36 (1) (f), 42 , 472 (8)	0	
Holdings of Common Equity Tier 1 instruments of financial sector entities where those entities have a reciprocal cross holding with the institution designed to artificially inflate the institution's own funds (negative amount)	0	36 (1) (g), 44, 472 (9)	0	
Direct and indirect holdings by the institution of Common Equity Tier 1 instruments of financial sector entities where the institution does not have a significant investment in those entities (less than 10% and less eligible sales positions) (negative amount)	0	36 (1) (h), 43, 45, 46, 49 (2) (3), 79, 472 (11)	0	
Direct, indirect and synthetic holdings by the institution of Common Equity Tier 1 instruments of financial sector entities where the institution has a significant investment in those entities (more than 10% and less eligible sales positions) (negative amount)	0	36 (1) (i), 43, 45, 47, 48 (1) (b), 49 (1) to (3), 79, 470, 472 (11)	0	
Exposure amount of the following items which qualify for a risk weight of 1250%, where the institution deducts that exposure amount from the amount of Common Equity Tier 1 items as an alternative	0	36 (1) (k)	0	
Deferred tax assets that rely on future profitability arising from temporary differences (in excess of the 10% threshold, less corresponding tax liabilities if the conditions set forth in Article 38 (3) are satisfied) (negative amount)	0	36 (1) (c), 38, 48 (1) (a), 470, 472 (5)		
Amount in excess of the 17.65% threshold (negative amount)	0	48 (1)		
of which direct and indirect holdings by the institution of Common Equity Tier 1 instruments of financial sector entities where the institution has a significant investment in those entities	0	36 (1) (i), 48 (1) (b), 470, 472 (11)		
of which deferred tax assets that rely on future profitability arising from temporary differences	0	36 (1) (c), 38, 48 (1) (a), 470, 472 (11)		
Losses for the current financial year (negative amount)	0	36 (1) (a), 472 (3)	– 1	
Any foreseeable tax charge relating to Common Equity Tier 1 (negative amount)	0	36 (1) (l)		
Regulatory adjustments to Common Equity Tier 1 with respect to amounts subject to pre-CRR treatment	0			

Capital instruments	Amount on date of disclosure 31 Dec. 2014	Reference to Articles in Regulation (EU) No. 575/2013	Amounts which come within the scope of Regulation (EU) No. 575/2013 or prescribed residual amount in accordance with Regulation (EU) No. 575/2013	Reference
EUR million				
Regulatory adjustments in connection with unrealized gains and losses in accordance with Article 467 and 468	– 246			
of which deductions and filters for unrealized losses from debt instruments	74			Sub-amount n
of which deductions and filters for unrealized losses from risk exposures to governments classified as »available for sale«	217			
of which deductions and filters for unrealized gains from equity investments	– 531			m
of which deductions and filters for reserves for currency translation differences	– 5			o
Amount to be deducted from or added to Common Equity Tier 1 in connection with additional deductions and filters and in accordance with the necessary pre-CRR deductions	0	481		
Amount of items required to be deducted from Additional Tier 1 items that exceeds the Additional Tier 1 capital of the institution (negative amount)	0	36 (1) (j)		
Total regulatory adjustments to Common Equity Tier 1 (CET1)	**– 592**			
Common Equity Tier 1 (CET1)	**12,015**			
Additional Tier 1 (AT1): instruments				
Capital instruments and related premiums	0	51, 52		
Amount of items as defined in Article 484 (4) plus the related premium no longer eligible for inclusion in AT1	1,394	486 (3)		h
Government capital allocations subject to grandfathering rights until 1 January 2018	0	483 (3)		
Qualifying CET1 instruments counting towards consolidated AT1 (including the non-controlling interests not already mentioned above) which have been issued by subsidiaries and are held by third parties	0	85, 86, 480	0	
Additional Tier 1 (AT1) before regulatory adjustments	**1,394**			
Additional Tier 1 (AT1): regulatory adjustments				
Direct and indirect holdings by an institution of its own Additional Tier 1 instruments (negative amount)	0	52 (1) (b), 56 (a), 57, 475 (2)	0	
Holdings of Additional Tier 1 instruments of financial sector entities where those entities have a reciprocal cross holding with the institution designed to artificially inflate the institution's own funds (negative amount).	0	56 (b), 58, 475 (3)	0	
Direct and indirect holdings by the institution of Additional Tier 1 instruments of financial sector entities where the institution does not have a significant investment in those entities (less than 10% and less eligible sales positions) (negative amount)	0	56 (c), 59, 60, 79, 475 (4)	0	
Direct and indirect holdings by the institution of Additional Tier 1 instruments of financial sector entities where the institution has a significant investment in those entities (more than 10% and less eligible sales positions) (negative amount)	0	56 (d), 59, 79, 475 (4)	0	
Regulatory adjustments to Additional Tier 1 with respect to amounts subject to pre-CRR treatment and treatment during the transition period for which transitional provisions apply under Regulation (EU) No. 575/2013 (i.e. CRR residual amounts)	0			
Residual amounts to be deducted from Additional Tier 1 with respect to items to be deducted from Common Equity Tier 1 during the transition period provided for in Article 472 of Regulation (EU) No. 575/2013	– 437	472, 472 (3) (a), 472 (a), 472 (6), 472 (8) (a), 472 (9), 472 (10) (a), 472 (11) (a)		
of which material interim losses (net)	– 1			
of which intangible assets	– 391			Sub-amount (a + b)
of which shortfall of provisions for expected losses	– 45			
Residual amounts to be deducted from Additional Tier 1 with respect to items to be deducted from Tier 2 items during the transition period provided for in Article 475 of Regulation (EU) No. 575/2013	0	477, 477 (3), 477 (4) (a)		
Amount to be deducted from or added to Additional Tier 1 in connection with additional deductions and filters and in accordance with the necessary pre-CRR deductions	0	467, 468, 481		
Amount of items required to be deducted from Tier 2 items that exceeds the Tier 2 of the institution (negative amount)	0	56		
Total regulatory adjustments to Additional Tier 1 (AT1)	**– 437**			
Additional Tier 1 (AT I)	**957**			
Tier 1 (T1 = CET1 + AT1)	**12,972**			

EUR million Capital instruments	Amount on date of disclosure 31 Dec. 2014	Reference to Articles in Regulation (EU) No. 575/2013	Amounts which come within the scope of Regulation (EU) No. 575/2013 or prescribed residual amount in accordance with Regulation (EU) No. 575/2013	Reference
Tier 2 (T2): Instruments and reserves				
Capital instruments and related premiums	**3,347**	**62, 63**		**e+f+g+i**
Amount of items as defined in Article 484 (5) plus the related premium no longer eligible for inclusion in T2	0	486 (4)		
Government capital allocations subject to grandfathering rights until 1 January 2018	0	483 (4)		
Qualifying equity instruments counting towards consolidated Tier 2 (including the non-controlling interests and AT1 instruments not already mentioned above) which have been issued by subsidiaries and are held by third parties	0	87, 88, 480	0	
Credit risk adjustments	86	62 (c) and (d)		
Tier 2 (T2) before regulatory adjustments	**3,433**			
Tier 2 (T2): regulatory adjustments				
Direct and indirect holdings by an institution of its own Tier 2 instruments and subordinated loans (negative amount)	– 9	63 (b) (i), 66 (a), 67, 477 (2)	– 36	
Holdings of Tier 2 instruments and subordinated loans of financial sector entities where those entities have a reciprocal cross holding with the institution designed to inflate artificially the institution's own funds (negative amount)	0	66 (b), 68, 477 (3)	0	
Direct and indirect holdings by the institution of Tier 2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (less than 10% and less eligible sales positions) (negative amount)	0	66 (c), 69, 70, 79, 477 (4)	0	
Direct and indirect holdings by the institution of Tier 2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (less eligible sales positions) (negative amount)	0		0	
Regulatory adjustments to Tier 2 with respect to amounts subject to pre-CRR treatment and treatment during the transition period subject to phase out arrangements as described in Regulation (EU) No. 575/2013 (i.e. CRR residual amounts)	– 36			
Residual amounts to be deducted from Tier 2 with respect to items to be deducted from CET1 items during the transition period provided for in Article 472 of Regulation (EU) No. 575/2013	– 45			
of which material interim losses (net)	0			
of which intangible assets	0			
of which shortfall of provisions for expected losses	– 45			
Residual amounts to be deducted from Tier 2 with respect to items to be deducted from CET1 items during the transition period provided for in Article 475 of Regulation (EU) No. 575/2013	0			
Amount to be deducted from or added to Tier 2 in connection with additional deductions and filters and in accordance with the necessary pre-CRR deductions	0			
Total regulatory adjustments to Tier 2	**– 90**			
Total Tier 2	**3,343**			
Total own funds (TC = T1 + T2)	**16,315**			
Risk weighted assets with respect to amounts subject to pre-CRR treatment and treatment during the transition period which are subject to phase out arrangements as described in Regulation (EU) No. 575/2013 (i.e. CRR residual amounts)	0			
of which items not deducted from Tier 2	0		0	
of which indirect holdings in the institution's own Tier 2 instruments	0			
Total risk weighted assets	**82,182**			
Capital ratios and buffers				
CET1 capital ratio (expressed as a percentage of the total risk exposure amount)	14.6	92 (2) (a), 465		
T1 capital ratio (expressed as a percentage of the total risk exposure amount)	15.8	92 (2) (b), 465		
Total capital ratio (expressed as a percentage of the total risk exposure amount)	19.9	92 (2) (c)		
Institution-specific capital buffer requirement (minimum required CET1 capital ratio in accordance with Article 92 (1) (a) plus the required capital conservation buffer and countercyclical capital buffer, systemic risk buffer and buffer for systemically relevant institutions (G-SRI or A-SRI), expressed as a percentage of the total risk exposure amount)	0	CRD 128, 129, 130		
CET1 available for the buffers (expressed as a percentage of the total risk exposure amount)	0	CRD 128		

Capital instruments (EUR million)	Amount on date of disclosure 31 Dec. 2014	Reference to Articles in Regulation (EU) No. 575/2013	Amounts which come within the scope of Regulation (EU) No. 575/2013 or prescribed residual amount in accordance with Regulation (EU) No. 575/2013	Reference
Amounts below the thresholds for deductions (before risk weighting)				
Direct and indirect holdings by the institution of instruments of financial sector entities where the institution does not have a significant investment in those entities (less than 10 % and less eligible sales positions)	524	36 (1) (h), 45, 46, 472 (10), 56 (c), 59, 60, 475 (4), 66 (c), 69, 70, 477 (4)		
Direct and indirect holdings by the institution of CET1 instruments of financial sector entities where the institution has a significant investment in those entities (more than 10 % and less eligible sales positions)	874	36 (1) (i), 45, 48, 470, 472 (11)		
Deferred tax assets that rely on future profitability arising from temporary differences (under the 10 % threshold, less corresponding tax liabilities if the conditions set forth in Article 38 (3) are satisfied) (negative amount)	604	36 (1) (c), 38, 48, 470, 472 (c)		d
Applicable caps for the inclusion of impairments in Tier 2				
Credit risk adjustments eligible for inclusion in Tier 2 for risk exposure values to which the standard approach is applied (before application of the cap)	0	62		
Cap for the inclusion of credit risk adjustments in Tier 2 under the standard approach	179	62		
Credit risk adjustments eligible for inclusion in Tier 2 for risk exposure values to which the approach based on internal assessments is applied (before application of the cap)	86	62		
Cap on the inclusion of credit risk adjustments in Tier 2 under the approach based on internal assessments	307	62		
Equity instruments subject to phase out arrangements (only applicable from 1 January 2014 until 1 January 2022)				
Current cap on CET1 instruments subject to phase out arrangements	0	484 (3), 486 (2) and (5)		
Amount excluded from CET1 due to cap (amount in excess of the cap after repayments and maturities)	0	484 (3), 486 (2) and (5)		
Current cap on AT1 instruments subject to phase out arrangements	1,928	484 (4), 486 (3) and (5)		
Amount excluded from AT1 due to cap (amount in excess of the cap after repayments and maturities)	0	484 (4), 486 (3) and (5)		
Current cap on T2 instruments subject to phase out arrangements	0	484 (5), 486 (4) and (5)		
Amount excluded from T2 due to cap (amount in excess of the cap after repayments and maturities)	0	484 (5), 486 (4) and (5)		

Figure 2: Type and amounts of capital instruments.

The LBBW Group's own funds are made up of

- Common Equity Tier 1 (CET1) capital, which comprises the following items:
  - paid-in capital
  - share premiums (capital reserves)
  - retained earnings
  - other eligible reserves (including revaluation reserves)

- Additional Tier 1 (AT1) capital, which comprises the following items:
  - silent partners' contributions
  - hybrid capital in the form of preference shares

- and Tier 2 (T2) capital, which comprises the following items:
  - non-current subordinated liabilities (and related premiums)
  - profit-participation rights (and related premiums)
  - positive amounts arising from the reconciliation of impairments.

Under the applicable transitional rules, Additional Tier 1 capital is eligible for full inclusion.

Tier 2 capital must be amortized to the day in the five years prior to maturity under the applicable rules.

The disclosures required under Article 437 (1) (b) CRR on the main features of all capital instruments issued are set out in a separate document entitled »Main features of the elements of the Bank's capital«.

LBBW paid back the silent partners' contributions of EUR 1 billion to its owners with effect from 1 January 2014.

The following table sets out the treatment of the deductions including the applicable transitional rules. Under the applicable transitional rules, a partial deduction from Additional Tier 1 or Tier 2 capital is possible during the transition period.

Deductions	Current 100% inclusion	Transitional rules
Revaluation reserve		
Deductions for unrealized losses from debt instruments (except for risk exposures to central governments)		From 2014: in steps of 20% From 2018: 100%
Deductions for unrealized gains from equity investments (including currency translation reserve)		2014: 0% 2015: 40% From 2016: in steps of 20% From 2018: 100%
Prudential filters		
Reserves from gains or losses from the fair value measurement of cash flow hedges	X	
Gains or losses arising from changes in the Bank's own credit rating from own liabilities measured at fair value	X	
Gains and losses from derivative liabilities measured at fair value arising from the Bank's own credit risk		From 2014: in steps of 20% From 2018: 100%
Additional measurement adjustments in accordance with the principles of cautious measurement	X	
Other deductions		
Current losses		From 2014: in steps of 20% From 2018: 100%
Intangible assets and goodwill		From 2014: in steps of 20% From 2018: 100%
Deferred tax assets that rely on future profitability except those arising from temporary differences		From 2015: in steps of 10% From 2024: 100%
Negative amounts from the calculation of expected losses		From 2014: in steps of 20% From 2018: 100%

Figure 3: Transitional rules for deductions.

Reconciliation of own funds components.

The following table compares the components of the Bank's own funds relevant for the CRR report on the basis of the accounting and regulatory bases of consolidation. It only includes those items of the balance sheet which are relevant for the calculation of the Bank's own funds in accordance with CRR. Accordingly, it does not show all the components reported on the face of the balance sheet.

EUR million Assets as at 31 December 2014	In accordance with IFRS consolidated financial statements	In accordance with FINREP	Reference
Intangible assets	**489**	**489**	
of which goodwill	379	379	a
of which other intangible assets	110	110	b
Deferred income tax assets	**1,095**	**1,128**	
of which from loss carryforwards	491	480	c
of which from temporary differences	604	648	d

EUR million Equity and liabilities as at 31 December 2014	In accordance with IFRS consolidated financial statements	In accordance with FINREP	Reference
Financial liabilities measured at fair value through profit or loss	**75,246**	**75,246**	
of which subordinated liabilities	507	507	e
of which capital generated from profit-participation rights	166	166	f
Subordinated capital	**6,229**	**6,229**	
of which subordinated liabilities	4,510	4,510	g
of which typical silent partners' contributions	1,458	1,458	h
of which capital generated from profit-participation rights	261	261	i
Equity	**13,208**	**13,087**	
of which share capital	3,484	3,484	j
of which capital reserve	8,240	8,240	k
of which retained earnings	920	710	l
of which other comprehensive income	111	301	
of which revaluation reserve	97	296	
of which revaluation reserve for equity investments	405	605	m
of which revaluation reserve for debt instruments	– 308	– 308	n
of which currency translation reserve	15	5	o

Figure 4: Reconciliation of the Bank's own funds (Article 437 (1a) CRR).

Internal capital management.

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

The integrated risk and capital management is carried out by the Group's Board of Managing Directors. Among other things, the Asset Liability Committee (ALCo) supports the Board of Managing Directors in structuring the balance sheet, managing capital and liquidity, in funding and in managing market price risks. The ALCo prepares decisions in this respect that are subsequently met by the Group's Board of Managing Directors.

On matters relating to risk management and capital management under economic aspects, the Risk Committee (RiskCom) helps prepare decisions for the Board of Managing Directors with regard to risk monitoring, the risk methodology and the risk strategy for the Group as a whole.

In view of the large number of requirements in regulatory banking law and accounting, a coordinating Regulatory/Accounting Committee has been established to ensure an early assessment of the requirements of relevance to managing the Bank and to take appropriate measures.

Capital allocation and longer-term strategic capital management is performed during the integrated annual planning process (with a five-year planning horizon). The plans are approved by the Group's Board of Managing Directors and monitored on an ongoing basis with the intra-year forecast. The Supervisory Board ultimately decides on the business plan.

Regulatory management.

The LBBW Group's regulatory capital management is based on the requirements of CRR/CRD IV.

Observance of the regulatory capital ratios is regularly monitored on the basis of actual developments and forecasts. Stress tests are also carried out on a regular basis to analyze adverse developments. The European capital adequacy rules are resulting in stricter capital requirements in terms of both quality and quantity compared with SolvV.

The LBBW Group particularly bases the coordination and definition of its internal targets on its CET1 capital ratio (ratio of Tier 1 capital net of Additional Tier 1 capital to risk exposure values) and the total capital ratio after full implementation of the CRR requirements.

Economic management.

LBBW ensures risk-bearing capacity by means of a Group-wide compilation of risks across all major types of risk and subsidiaries, and the comparison of this with the capital required for economic purposes (aggregate risk cover).

At LBBW, aggregate risk cover (corresponds to risk coverage potential as per MaRisk (Minimum Requirements for Risk Management)) denotes the capital identified according to economic criteria which is available for the coverage of unexpected losses. In addition to consolidated equity in accordance with IFRS including revaluation reserves, subordinated capital and realized profit/loss in accordance with IFRS are included as components. Extensive conservative deductions are also included in aggregate risk cover due to regulatory requirements.

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

The upper risk limit for economic capital (economic capital limit) represents the Group-wide overarching limit for all relevant quantified risk types. This limit reflects LBBW Group's maximum willingness to accept risk. In keeping with the conservative principle underlying risk tolerance it is substantially below the aggregate risk cover and thus provides scope for risks arising from unforeseeable stress situations. In addition, the economic capital limit is verified on the basis of target figures.

On the one hand, limits are derived from the upper risk limit for economic capital for various types of risk that are directly quantifiable:

- Credit risks (including risk of default by borrower or issuer, issuer risk, counterparty and country risks)
- Market price risks
- Operational risks
- Real estate risks
- Development risks
- Investment risks.

By contrast, the liquidity risks are managed and limited by the quantitative and procedural rules defined in the liquidity risk tolerance.

On the other hand, an additional limit is derived for other types of risk that are not quantifiable within the framework of a model approach:

- Business risks
- Reputation risks
- Pension risks
- Funding risks
- Model risks
- Dilution risks
- Fund placement risks.

The risk-bearing capacity is monitored by Group Risk Control by means of a traffic light system, including stress scenarios and forecast calculations. The respective traffic light thresholds are connected with the restructuring plan in line with the Minimum Requirements for the Design of Recovery Plans (MaSan) and linked to response options.

Further details can be found in the annual report.

Capital requirements.

Capital requirements for counterparty risks are reported in accordance with the exposure classes specified for the credit risk standard approach (CRSA) or for the internal ratings-based approach (IRBA).

A distinction is also drawn between CRSA and IRBA securitization in the case of capital backing for securities transactions.

The capital requirements for investments which were acquired before 1 January 2008 are exempt from the application of the IRB approach in accordance with Article 495 CRR (grandfathering rule) until 31 December 2017 and may continue to be reported under the CRSA with a risk weight of 100%. Investments acquired after that date are backed according to the internal rating, if a rating is available. Otherwise, the simple risk weight approach is applied with a corresponding fixed risk weight.

The capital requirements for market price risks relating to general interest rate risks and equity risks as well as the related option price risks of LBBW (Bank) are calculated using the internal model approved by BaFin. Since 31 December 2011, this has also included capital backing for stressed VaR. The other market price risks are calculated using the standard approach.

Capital backing for operational risks is calculated using the standard approach.

The following table summarizes the capital requirements in terms of the risk types that are relevant under the regulatory framework (counterparty risk, market price risk and operational risks).

EUR million	Capital requirements
1 Credit risks	
1.1 Credit risk standard approach	
Central governments	0
Regional governments and local authorities	0
Other public sector agencies	4
Multilateral development banks	0
International organizations	0
Banks	58
Corporates	375
Retail business	379
Items secured by real estate	161
Past due items	31
Items exposed to particularly high risk	0
Covered bonds issued by banks	0
Risk exposure to banks and corporates with a short-term credit rating	0
Undertakings for collective investment (UCI)	0
Other items	39
Total credit risk standard approach	**1,050**
1.2 IRB approaches	
Central governments	256
Banks	528
Corporates - SMEs	226
Corporates - specialized lending exposures	809
Corporates - miscellaneous	1,845
Retail business - of which secured with real estate liens, SMEs	0
Retail business - of which secured with real estate liens, non-SMEs	0
Retail business - of which qualified, revolving	0
Retail business - of which other, SMEs	0
Retail business - of which other, non-SMEs	0
Other assets not relating to credit	119
Total IRB approaches	**3,783**
1.3 Securitization positions	
Securitization positions under CRS approach	1
of which resecuritizations	0
Securitization positions under IRB approach	70
of which resecuritizations	0
Total securitization positions	**71**
1.4 Equity investments	
Equity investments under IRB approach	242
of which Internal Model Method	0
of which PD/LGD approach	16
of which simple risk weight approach	134
of which exchange-traded equity investments	4
of which not exchange-traded but forming part of a sufficiently diversified equity investment portfolio	128
of which other equity investments	1
Equity investments under CRSA	92
of which investments held with method continuation/grandfathering	92
Total equity investments	**335**
1.5 Risk position amount for contributions to a default fund for a CCP	**1**
Total credit risks	**5,240**
2 Resolution risks	
Resolution risks in the banking book	0
Resolution risks in the trading book	0
Total resolution risks	**0**
3 Market price risks	
Standard approach	260
of which interest rate risks	187
of which general and special price risks (net interest position)	187
of which securitization positions with special price risk in trading book	0
of which special price risk in correlation trading portfolio	2
of which equity risks	37
of which currency risks	32
of which risks from commodities positions	3
Internal Model Method	465

Total market price risks	**725**
4 Operational risks	
Basic indicator approach	0
Standard approach	405
Advanced measurement approach	0
Total operational risks	**405**
5 Total risk exposure for credit valuation adjustments	**204**
6 Total risk exposure resulting from large exposure in the trading book	**0**
7 Other	
Other exposure values	0
Total capital requirements	**6,575**

Figure 5: Total capital requirements (Article 438 CRR).

5 General counterparty risk. (Article 442 CRR)

In the previous disclosure reports, the quantitative data on the general reporting duties for counterparty risks was always based on the internal management approach. This means that LBBW's risk situation is reported in the light of the figures used for the purpose of conducting internal risk management and reporting to the Board of Managing Directors and the corporate bodies. As a result of the statutory changes resulting from the introduction of the CRR, it is now necessary for this data to be disclosed in accordance with the regulatory approach.

This change of methodology means that the current figures are not fully comparable with those for the previous year. The differences primarily arise from the variation in the values applied in the internal management and regulatory approaches (see description below). In line with the management approach previously used, only the SüdLeasing Group is consolidated alongside Landesbank Baden-Württemberg in the following chapter. This is for materiality reasons.

As a fundamental principle, the regulatory approach is based on reportable exposure at default (EaD). The main reasons for the differences in values compared with the previous analysis using the internal management approach include the following:

- Bonds held in the trading book which are measured on the basis of the management approach do not constitute counterparty risk positions under the regulatory approach as they are reported within market price risks
- Derivatives which are measured at market price under the internal management approach are measured by reference to the credit equivalent amount under the regulatory approach
- The inclusion of regulatory netting in the regulatory approach reduces the counterparty risk positions.

The requirements of Article 442 CRR necessitate changes to the presentation of lending volumes in this report. The previous categorization of receivables types has been replaced by CRR exposure classes. For this reason, the presentation is based on the regulatory approach.

The adoption of the regulatory approach also necessitates a change to industry classification. The previous internal risk-focused industry classification system has been replaced by the Deutsche Bundesbank customer classification system.

Breakdown of portfolio by region, industry and residual term.

The following tables 6 through 11 show the LBBW Group's exposure classes in accordance with CRSA and IRBA broken down by region, industry and residual term.

The average risk exposure values have been calculated on the basis of quarterly closing dates.

The following table breaks down risk exposure by region and CRR exposure class.

EUR million

Regions	Regional governments or local authorities	Other public sector agencies	Banks	Corporates	of which SMEs	Retail business	of which retail business SMEs	Items secured by real estate	Past due items	Other items	Total
Germany	5,741	280	49,636	5,326	702	8,515	591	5,556	249	117	75,421
Western Europe	0	0	249	1,639	1	73	0	43	22	2	2,029
Eastern Europe	0	0	0	251	0	5	0	5	6	0	268
Asia/Pacific	0	0	0	202	0	10	0	10	7	0	230
North America	334	0	20	459	0	13	0	17	3	0	847
Latin America	0	0	0	50	0	2	0	1	7	0	60
Africa	0	0	0	0	0	1	0	1	0	0	2
Other	0	0	0	0	0	0	0	0	0	0	0
Not allocated to a geographical area	0	0	0	2	0	0	0	0	0	0	2
Total	**6,076**	**280**	**49,906**	**7,930**	**703**	**8,618**	**591**	**5,635**	**295**	**119**	**78,858**
Average total risk exposure in the period under review	**11,659**	**481**	**56,046**	**7,904**	**959**	**9,093**	**595**	**5,711**	**342**	**98**	**91,336**

Figure 6: Breakdown of risk exposure by region under the CRS approach (Article 442 (d) CRR).

EUR million

Regions	Central governments	Banks	Corporates - SMEs	Corporates - specialized lending exposures	Corporates - miscellaneous	Other non-loan-related assets	Total
Germany	29,702	15,837	7,668	10,322	65,261	1,356	130,147
Western Europe	4,129	36,367	91	4,016	9,467	3	54,073
Eastern Europe	388	909	64	313	1,099	0	2,774
Asia/Pacific	159	1,643	23	138	1,012	0	2,975
North America	2,283	11,452	2	4,433	2,828	0	20,998
Latin America	12	728	24	345	394	1	1,503
Africa	12	35	1	6	46	0	99
Other	1,977	2,950	0	0	0	89	5,017
Total	**38,662**	**69,922**	**7,872**	**19,573**	**80,107**	**1,450**	**217,586**
Average amount of total risk exposure in the period under review	**43,540**	**80,324**	**8,079**	**19,240**	**77,264**	**1,529**	**229,975**

Figure 7: Breakdown of risk exposure by region under the IRB approach (Article 442 (d) CRR).

The following table breaks down risk exposure by industry and CRR exposure class.

The industry breakdown reflects the main sectors within the overall portfolio. A further breakdown is provided where a greater differentiation of the main industries enhances the information contained in the table as a whole (CRSA and IRBA).

»Other industries« includes all Bundesbank industries whose individual volume does not exceed 3% of total risk exposure.

EUR million

Main industries	Regional govern-ments or local authorities	Other public sector agencies	Banks	Corporates	of which SMEs	Retail business	of which retail business SMEs	Items secured by real estate	Past due items	Other items	Total
Provision of financial and insurance services	0	0	49,906	2,306	47	48	3	35	9	2	52,307
Banks and central banks	0	0	49,781	1	0	0	0	0	0	2	49,784
of which savings banks and Landesbanks	0	0	42,046	0	0	0	0	0	0	0	42,046
Other financial institutions	0	0	125	1,939	45	6	1	4	7	0	2,081
Other financial and insurance services	0	0	0	365	2	43	3	31	3	0	442
Public administration, defense, social security	6,067	247	0	63	0	0	0	0	0	0	6,378
Private households	0	0	0	374	0	7,014	0	5,141	119	117	12,763
Real estate and housing	1	0	0	682	19	65	15	45	5	0	797
Other real estate	0	0	0	436	14	15	5	13	2	0	467
Housing companies	1	0	0	245	5	49	10	32	2	0	330
Energy supplies	0	0	0	404	19	13	3	1	2	0	420
Manufacturing	0	0	0	416	199	176	131	18	22	0	632
Mechanical engineering	0	0	0	52	17	20	15	2	1	0	75
Automotive production including components	0	0	0	44	35	3	2	1	0	0	48
Miscellaneous manufacturing	0	0	0	319	147	153	113	15	21	0	508
Other sectors	7	33	0	3,686	419	1,303	438	395	138	0	5,562
Total	**6,076**	**280**	**49,906**	**7,930**	**703**	**8,618**	**591**	**5,635**	**295**	**119**	**78,858**
Average total risk exposure in the period under review	**11,659**	**481**	**56,046**	**7,904**	**959**	**9,093**	**595**	**5,711**	**342**	**98**	**91,336**

Figure 8: Breakdown of risk exposure by industry under the CRS approach (Article 442 (e) CRR).

EUR million Main industries	Central govern-ments	Banks	Corporates - SMEs	Corporates - specialized lending exposures	Corporates - miscellaneous	Other non-loan-related assets	Total
Provision of financial and insurance services	8,800	69,137	95	747	16,032	3	94,814
Banks and central banks	6,829	48,064	0	0	587	3	55,484
of which savings banks and Landesbanks	0	0	0	0	0	0	0
Other financial institutions	1,901	20,208	48	508	9,767	0	32,433
Other financial and insurance services	69	866	46	239	5,678	0	6,898
Public administration, defense, social security	26,881	451	26	18	106	0	27,481
Private households	0	0	50	95	1,827	304	2,277
Real estate and housing	236	153	3,132	10,563	7,324	23	21,430
Other real estate	69	153	715	9,273	3,631	20	13,862
Housing companies	166	0	2,417	1,289	3,693	3	7,568
Energy supplies	476	0	104	3,455	3,762	0	7,797
Manufacturing industry	0	0	1,469	260	22,204	1	23,933
Mechanical engineering	0	0	490	96	5,532	0	6,119
Automotive production including components	0	0	70	8	5,535	0	5,613
Miscellaneous manufacturing	0	0	909	155	11,136	1	12,201
Other sectors	2,269	181	2,996	4,436	28,853	1,118	39,854
Total	**38,662**	**69,922**	**7,872**	**19,573**	**80,107**	**1,450**	**217,586**
Average total risk exposure in the period under review	**43,540**	**80,324**	**8,079**	**19,240**	**77,264**	**1,529**	**229,975**

Figure 9: Breakdown of risk exposure by industry under the IRB approach (Article 442 e CRR).

The following table breaks down risk exposure by residual contractual term and CRR exposure classes.

EUR million Residual contractual term	Regional govern-ments or local authorities	Other public sector agencies	Banks	Corporates	of which SMEs	Retail business	of which retail business SMEs	Items secured by real estate	Past due items	Other items	Total
Due daily	121	8	6,515	1,081	5	2,499	1	27	129	119	10,498
< 1 year	126	81	18,420	999	110	327	125	53	31	0	20,038
Up to 5 years	270	3	6,119	1,592	441	1,236	433	321	69	0	9,611
> 5 years	5,558	188	18,851	4,257	147	4,556	31	5,234	66	0	38,710
Total	**6,076**	**280**	**49,906**	**7,930**	**703**	**8,618**	**591**	**5,635**	**295**	**119**	**78,858**
Average total risk exposure in the period under review	**11,659**	**481**	**56,046**	**7,904**	**959**	**9,093**	**595**	**5,711**	**342**	**98**	**91,336**

Figure 10: Breakdown of risk exposure by residual term under the CRS approach (Article 442 (f) CRR).

EUR million Residual contractual term	Central govern-ments	Banks	Corporates - SMEs	Corporates - specialized lending exposures	Corporates - miscel-laneous	Other non-loan-related assets	Total
Due daily	3,658	8,045	767	393	5,020	1,159	19,041
< 1 year	5,806	50,405	1,038	2,366	21,252	206	81,072
Up to 5 years	8,276	5,450	1,128	6,662	27,784	14	49,314
> 5 years	20,319	6,023	4,940	10,151	26,051	15	67,498
No information	604	0	0	0	0	56	660
Total	**38,662**	**69,922**	**7,872**	**19,573**	**80,107**	**1,450**	**217,586**
Average total risk exposure in the period under review	**43,540**	**80,324**	**8,079**	**19,240**	**77,264**	**1,529**	**229,975**

Figure 11: Breakdown of risk exposure by residual term under the IRB approach (Article 442 (f) CRR)/

Definitions of allowances for losses on loans and advances.

Information on procedures applied in the recognition of allowances for losses on loans and advances is disclosed in chapter »Allowances for losses on loans and advances« in the Notes to the Consolidated Financial Statements.

In the following illustrations LBBW distinguishes between two types of impaired performance:

- A transaction is defined as past due when there are arrears on a payment obligation (above a minimum limit) for more than five consecutive days.
- A transaction is classified as non-performing when a default rating has been given (in accordance with Article 177 CRR) or an impairment has been recognized.

Non-performing and past due loans by region and industry.

The following tables show non-performing and past due loans and the allowances for losses on loans and advances, broken down by region and industry.

EUR million Regions	Utilization from non-performing loans	Past due loans (with no impairment requirement)	Specific valuation allowances	Provisions
Germany	2,846	367	1,063	74
Western Europe	430	11	81	1
Eastern Europe	81	7	38	1
Asia/Pacific	53	0	4	1
North America	228	1	57	0
Latin America	46	4	14	0
Africa	1	0	0	0
Other	0	0	2	0
Total	**3,685**	**390**	**1,259**	**78**

Figure 12: Non-performing and past due loans by region (Article 442 (h) CRR).

Main industries (EUR million)	Utilization from non-performing loans	Past due loans (without impairment requirement)	Specific valuation allowances	Provisions	Net additions to (+)/reversals of specific valuation allowances/ provisions (-)	Write-offs (+)	Recoveries on loans previously written off (-)
Provision of financial and insurance services	**146**	**300**	**98**	**2**	**14**	**2**	**0**
Banks and central banks	24	13	3	2	– 2	0	0
of which savings banks and Landesbanks	0	4	0	0	0	0	0
Other financial institutions	94	265	9	0	– 2	1	0
Other financial and insurance services	28	21	86	1	17	2	0
Public administration, defense, social security	**22**	**0**	**0**	**0**	**0**	**1**	**0**
Private households	**258**	**22**	**87**	**0**	**4**	**7**	**0**
Real estate and housing	**856**	**8**	**174**	**0**	**– 42**	**13**	**0**
Other real estate	715	5	123	0	– 4	3	0
Housing companies	141	3	51	0	– 38	10	0
Energy supplies	**180**	**1**	**46**	**0**	**19**	**3**	**0**
Manufacturing	**1,035**	**21**	**435**	**46**	**30**	**35**	**0**
Mechanical engineering	178	1	78	8	3	1	0
Automotive production including components	127	0	54	1	6	5	0
Miscellaneous manufacturing	730	20	303	37	21	28	0
Other sectors	**1,190**	**37**	**419**	**29**	**– 5**	**35**	**12**
Total	**3,685**	**390**	**1,259**	**78**	**20**	**96**	**12**

Figure 13: Non-performing and past due loans by significant industry (Article 442 (g) CRR).

Development of allowances for losses on loans and advances.

The following table shows the development of allowances for losses on loans and advances in the 2014 financial year.

EUR million Allowances for losses on loans and advances	Closing balance on 31 December 2013	Luxembourg merger	Adjustment in accordance with IFRS 10	Opening balance on 1 January 2014	Additions (+)	Reversals/ unwinding (-)	Utilization (-)	Exchange-rate-related and other changes (+)	Closing balance on 31 December 2014
Specific valuation allowances	1,797	– 2	– 3	1,792	413	396	561	12	1,259
Portfolio valuation allowances	176	0	0	176	90	128	1	0	138
Provisions	82	0	– 7	75	40	37	0	0	78
Total	**2,055**	**– 2**	**– 10**	**2,043**	**543**	**561**	**562**	**12**	**1,474**

Figure 14: Development of allowances for losses on loans and advances (Article 442 (i) CRR).

Total allowances for losses on loans and advances dropped by EUR 581 million over the previous year. As additions and reversals as well as unwinding effects were similar in amount, this decline is predominantly due to utilization.

Differences between the risk costs (allowances for losses on loans and advances) reported in the annual report and the balance of additions and reversals shown in the above table arise from reversals as a result of unwinding, which are included in this disclosure report in the »Reversals« column but are not included in the risk costs pursuant to IFRS. In addition, differences in the presentation of total allowances for losses on loans and advances may arise from differences in the basis of consolidation (see page 22).

6 Counterparty risk with defined risk weight. (Articles 444 and 452 CRR)

Only external credit rating assessments from the following ratings agencies are applied to calculate regulatory capital requirements under the credit risk standard approach:

- Standard & Poor's Ratings Services
- Moody's Investors Service
- Fitch Ratings Ltd.

These are applied on a standardized basis for all relevant CRSA exposure classes

If there is no directly applicable credit assessment available for a CRSA exposure, it is assumed to be unrated. In this case, the institution must determine the rating on the indirect credit assessments (comparable exposure).

Under Article 139 (2) CRR, comparable exposures are those which must be settled by the same debtor of the unrated CRSA exposure and for which a credit assessment for a certain issuing program (issue rating) or general credit assessment of the issuer (issuer rating) is available. In accordance with Article 140 CRR, the application of comparable exposures to short-term exposures is only possible with banks and corporates.

The ranking of the comparable receivable must be taken into account when deriving the credit rating assessment to be used.

At LBBW, potential further (comparable) exposures from the same borrower which have a usable issue or issuer rating are calculated automatically on the basis of customer-related information. Using the stipulated selection criteria, the reporting software then allocates an external rating to a previously unrated exposure if a comparison exposure is available.

If there is no external rating for the exposure or a comparison exposure, the defined risk weight under CRR is applied to the CRSA exposure class in question.

Total exposure values under the CRS approach.

The following two tables set out the exposure values by exposure class and risk weight on the basis of external ratings. There are no holdings for the 2%, 4%, 10% and 370% risk weights.

The exposure values are shown before and after credit risk mitigation effects from collateral. Collateral can cause a shift within the risk weight classes and a decline in the exposure values.

A large part of the exposure reported with a risk weighting of 0% under the CRS approach comprises exposure to savings banks and Landesbanks. They come within the scope of Article 113 (7) CRR as they are members of the same institutional protection system as LBBW.

The drop in exposure values with a 0% weighting before and after credit risk mitigation is chiefly due to a further decline in credit substitute business and the sale of the guarantee portfolio.

EUR million	Exposure values before credit risk mitigation/risk weights										
Exposure classes	0%	20%	35%	50%	70%	75%	100%	150%	250%	1250%	Other
Central governments	4	0	0	0	0	0	0	0	0	0	0
Regional governments and local authorities	5,835	16	0	0	0	0	0	0	0	0	0
Other public sector agencies	33	275	0	0	0	0	1	0	0	0	0
Multilateral development banks	0	0	0	0	0	0	0	0	0	0	0
International organizations	0	0	0	0	0	0	0	0	0	0	0
Banks	43,314	2,901	0	0	0	0	118	0	0	1	0
Corporates	7	851	0	88	0	0	8,341	0	0	0	0
Retail business	0	0	0	0	0	7,020	0	0	0	0	0
Items secured by real estate	0	0	5,498	177	0	0	5	0	0	0	0
Past due items	0	0	0	0	0	0	160	168	0	0	0
Items exposed to particularly high risk	0	0	0	0	0	0	0	3	0	0	0
Covered bonds issued by banks	0	0	0	0	0	0	0	0	0	0	0
Risk exposure to banks and corporates with a short-term credit rating	0	0	0	0	0	0	0	0	0	0	0
Undertakings for collective investment (UCI)	0	0	0	0	0	0	0	0	0	0	1
Equity investments	0	0	0	0	0	0	131	0	409	0	0
Other items	117	0	0	0	0	0	491	0	0	0	0
Total	**49,310**	**4,043**	**5,498**	**266**	**0**	**7,020**	**9,248**	**171**	**409**	**1**	**1**

Figure 15: Total exposure values under the CRS approach before credit risk mitigation (Article 444 (e) CRR).

EUR million	Total exposure values after credit risk mitigation/risk weights										
Exposure classes	0%	20%	35%	50%	70%	75%	100%	150%	250%	1250%	Other
Central governments	268	0	0	8	0	0	0	0	0	0	0
Regional governments and local authorities	6,908	15	0	0	0	0	0	0	0	0	0
Other public sector agencies	41	269	0	0	0	0	1	0	0	0	0
Multilateral development banks	0	0	0	0	0	0	0	0	0	0	0
International organizations	0	0	0	0	0	0	0	0	0	0	0
Banks	42,189	3,007	0	0	0	0	118	0	0	1	0
Corporates	7	873	24	89	97	0	4,491	0	0	0	0
Retail business	0	0	0	0	0	6,632	0	0	0	0	0
Items secured by real estate	0	0	5,498	177	0	0	5	0	0	0	0
Past due items	0	0	0	0	0	0	157	156	0	0	0
Items exposed to particularly high risk	0	0	0	0	0	0	0	3	0	0	0
Covered bonds issued by banks	0	0	0	0	0	0	0	0	0	0	0
Risk exposure to banks and corporates with a short-term credit rating	0	0	0	0	0	0	0	0	0	0	0
Undertakings for collective investment (UCI)	0	0	0	0	0	0	0	0	0	0	1
Equity investments	0	0	0	0	0	0	131	0	409	0	0
Other items	117	0	0	0	0	0	491	0	0	0	0
Total	**49,530**	**4,164**	**5,522**	**275**	**97**	**6,632**	**5,395**	**158**	**409**	**1**	**1**

Figure 16: Total exposure values under the CRS approach after credit risk mitigation (Article 444 (e) CRR).

Total exposure values under the IRB approach calculated using the simple risk-weight approach.

IRBA items with a fixed risk weight are reported in the following chart. These are exposure values for equity investments, for items secured with real estate liens and for specialized lending exposures.

Items in the equity investment exposure class which are subject to a fixed risk weight are reported at 190% in the case of private equity investments in sufficiently diversified portfolios, 290% in the case of exchange-traded equity investments and at 370% in the case of all other equity investments in accordance with Article 155 (2) CRR. An alternative risk weight of 50% is applied to exposures secured by a real estate lien in accordance with Article 230 (3) CRR. Specialized lending exposures in accordance with Article 153 (5) CRR are recognized at risk weights of between 0% and 115% or of 250%, depending on the residual term and degree of risk.

EUR million	Total exposure values after credit risk mitigation	
Risk weight	For specialized lending exposures	IRB approach for equity investments and exposures secured by real estate liens to which the simple risk weight approach is applied
0%	16	
50%	617	3,156
70%	44	
of which with a residual term of less than 2.5 years	11	
90%	182	
115%	50	
190%		841
250%	12	
290%		18
370%		5
Total	**919**	**4,020**

Figure 17: Exposures under the IRB approach in accordance with the simple risk weight approach.

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

Since 1 January 2008, LBBW has been permitted by BaFin to apply the basic IRB approach to both the Bank and the entire LBBW Group. From this date, regulatory capital backing has been based on the following rating systems in line with the IRB approach:

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

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

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

Description of the internal rating procedures.

As a general rule, LBBW's internal rating procedures can be divided into two categories:

- Scorecard-based rating procedures

A scorecard procedure is a standardized measurement method. These procedures involve the measurement of quantitative and qualitative factors in the light of liability relationships. Finally, transferrals and warning signals are included in the rating result.

- Simulation-based rating procedures

In contrast to a scorecard-based rating procedure, which estimates the probability of default on the basis of the current status of factors, a simulation-based rating generates scenarios for the future net cash development of, for example, a special-purpose vehicle (SPV). This takes account of the entire term and structure of the exposure. In addition, the simulation also includes macroeconomic scenarios (e.g. inclusion of interest and exchange rates) where relevant.

The following table describes the various rating procedures in detail.

Business area	Subgroup	Rating/assessment procedures	Methodology
Private and investment customers	Employed natural persons	Sparkassen KundenScoring (SKS)	Scorecard-based rating procedure
	Private customers with main cash flow from renting and leasing	Segment real estate compact rating in Sparkassen Immobilienrating	Simulation-based rating procedure
Corporate customers	Basic customers	Sparkassen StandardRating plus customer compact rating (CCR) (exposure between EUR 50,000 and EUR 250,000)	Scorecard-based rating procedure
	Business customers		
	Corporate customers		
	Leasing customers	Scoring of leasing customers Rating of leasing customers	Scorecard-based rating procedure
	Corporate customers/ key accounts	Rating for corporates	Scorecard-based rating procedure
	Non-profit organizations	Basic RCP (risk classification procedure)	Expert-based procedure
Project and specialized lending exposures	National commercial real estate	Sparkassen Immobilienrating	Simulation-based rating procedure
	International commercial real estate	Rating for international commercial real estate (ICRE)	Simulation-based rating procedures
		If necessary, RCP for specialized lending exposures	Scorecard-based rating procedure
	Open-end real estate funds	Sparkassen Immobilienrating	Scorecard-based rating procedure
	Aircraft finance	Airlines: rating for corporates	Scorecard-based rating procedure
		SPC: rating for aircraft finance	Simulation-based rating procedure
		If necessary, RCP for specialized lending exposures	Scorecard-based rating procedure
	Other project finance	Rating for project finance	Simulation-based rating procedure
		If necessary, RCP for specialized lending exposures	Scorecard-based rating procedure
	SPC real estate leasing	Rating for leasing refinancing	Simulation-based rating procedure
	Leveraged finance	Rating for leveraged finance	Scorecard-based rating procedure

Business area	Subgroup	Rating/assessment method	Methodology
Wholesale	Banks	Rating for banks	Scorecard-based rating procedure
		Rating for DSGV-Haftungsverbund	Simulation-based rating procedure
	Insurance companies	Rating for insurance companies	Scorecard-based rating procedure
	Leasing companies	Rating for leasing companies	Scorecard-based rating procedure
	Securitization items against own ABCP programs	Internal Assessment Approach for securitizations for Weinberg ABCP program	Simulation-based rating procedure
	Synthetic CDO securitization tranches	If no external rating is available: CDO shadow rating	Simulation-based rating procedure
	Other securitization transactions	RCP for ABSs	Simulation-based rating procedure
	National administrative authorities/ public-sector loans	Rating inheritance	n/a
	International administrative authorities	Rating for international administrative authorities	Scorecard-based rating procedure
	Municipal corporations	Sparkassen StandardRating	Scorecard-based rating procedure
		Corporates rating	Scorecard-based rating procedure
		Basic RCP	Expert-based procedure
	Sovereigns & transfer risks	Rating for country and transfer risks	Scorecard-based rating procedure
	Government-supported enterprises (GSE)	Rating for government supported enterprises	Scorecard-based rating procedure
	Funds (individual funds)	Rating procedure for funds	Scorecard-based rating procedure
Corporate items	Holding/ group structures	Basic RCP	Expert-based procedure
	Strategic equity investments	Suitable rating in each case (bank equity investments rated with bank rating etc.) in the absence of any reason to dispense with a rating	Dependent on procedure
		Otherwise basic RCP	Expert-based procedure

Figure 18: LBBW's internal rating procedures (Article 452 (b) (i) CRR).

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

		LBBW rating master scale	Probability of default (%)
Ratings	Investment grade	1(AAAA)	0.00%
		1(AAA)	0.01%
		1(AA+)	0.02%
		1(AA)	0.03%
		1(AA-)	0.04%
		1(A+)	0.05%
		1(A)	0.07%
		1(A-)	0.09%
		2	0.12%
		3	0.17%
		4	0.26%
		5	0.39%
	Speculative grade	6	0.59%
		7	0.88%
		8	1.32%
		9	1.98%
		10	2.96%
		11	4.44%
		12	6.67%
		13	10.00%
		14	15.00%
		15	20.00%
	Default classes	16	100.00%
		17	100.00%
		18	100.00%

Figure 19: LBBW's rating master scale (Article 452 (b) (i) CRR).

Further use of internal estimates.

LBBW's internal rating procedures are important instruments in the credit process and in credit risk management. The rating results are incorporated in the lending process as a component of the credit application and the basis for calculating competency levels. In addition, the ratings are used as parameters in the credit risk strategy and for determining the level of attention required.

The ratings form the basis for the integrated performance and risk management, portfolio management, pricing, capital allocation, stress-testing and risk-bearing capacity and are used as input for the calculation of allowances for losses on loans and advances under HGB and IFRS.

Control mechanisms for the rating systems.

Responsibility within LBBW for the rating systems lies with Credit Risk Control. Credit Risk Control plays the role of the credit risk control unit stipulated by Article 190 CRR and is responsible in particular for the design, selection, introduction, ongoing monitoring and performance of rating systems.

The majority of the rating procedures used by LBBW were developed in joint projects, whose joint activities were placed on a legal and organizational foundation through the establishment of Sparkassen Rating und Risikosysteme GmbH, Berlin (SR) and RSU Rating Service Unit GmbH & Co. KG, Munich (RSU). SR is responsible for processes for companies and business clients, private customers and commercial real estate financing. All other jointly developed procedures are regularly reviewed and, if necessary, adjusted by RSU with the assistance of LBBW 's employees.

The rating systems of LBBW are subject to a regular maintenance process, the central element of which is conducted under the guidance of RSU or SR (this activity was outsourced in line with Section 25a of the German Banking Act and disclosed accordingly). Data is derived from the RSU data pool (Landesbanks' pool data) and the SR data pool (data pooled by the Landesbanks and savings banks).

The core element of the maintenance process is the annual validation, the central task of which is backtesting, benchmarking and checking the model design and data quality. The results are submitted to a working group comprising methodology experts from all member institutions, which is responsible for independently reviewing validation and ensuring the consistency of the methods used for all processes in all modules. Validation involves confirming, adjusting or optimizing the rating procedure and its parameter estimates as necessary. Before introducing modified procedures, LBBW performs a test to ensure representativeness. In turn, this ensures that the rating procedures are also accurate and valid for the LBBW portfolio and can therefore be applied without restriction. In addition, the correct use of rating systems is analyzed and evaluated by rating controlling at LBBW, which also initiates and monitors any adjustments that may be required.

Process of allocating items or borrowers to rating classes or risk pools.

The exposure classes are determined electronically at a system level downstream from the operational booking systems. As a rule, each transaction included in an IRBA portfolio is allocated to an exposure class normally on the basis of the rating procedure applied. If a clear allocation using the rating procedure is not possible, exposure classes are distinguished on the basis of additional information, such as customer group allocation or transaction-specific information such as collateral. The following section describes the rating procedures used for the individual exposure classes and the area of applicability. Allocation forms a key aspect of capital backing activities.

Central governments and central banks exposure class.

Country and transfer risks are measured using a special rating procedure at LBBW. The key aspects entail the economic situation, the political environment as well as the domestic and foreign trade situation of the country in question. The rating procedure for country and transfer risks is used to classify exposures which are allocated to the IRBA exposure class »Central governments and central banks« in accordance with Article 147 (3) CRR and Articles 115 (2), 115 (4), 116 (4), 117 (2) and 118 CRR.

Banks exposure class.

The rating procedures for banks is applied to all borrowers which are allocated to the IRBA exposure class »Banks« under Article 147 (4) CRR and in the light of Articles 4 (1) Sentences 1, 2, 3, / 115 (2) and (4) / 116 (4) 117 / 119 (5) CRR. The purpose of the rating procedure for banks is to measure counterparty risks of banks worldwide. In terms of content, their use is limited to banks that mostly perform typical banking transactions (material interpretation of the term »bank«). Thus, bank holdings, home savings and loan associations, state finance agencies, financial and finance companies and financial service providers should also be rated with the banks module regardless of their legal form if they mostly perform typical banking transactions. Similarly, institutions which do not hold a banking permit but de facto primarily engage in banking-like business are rated with this procedure.

Furthermore, only entities that are subject to regulation and therefore operate in a supervised environment are rated.

Corporates exposure class.

The rating systems for corporate clients classify obligors assigned to IRBA exposure class »corporates« in accordance with Article 147 (7) CRR. The corporates rating is applied to a substantial part of the portfolio. Large domestic customers with consolidated sales of more than EUR 100 million and all international corporate customers are rated using the »corporates« rating. Domestic borrowers with sales of less than EUR 100 million are rated using the Sparkassen StandardRating methodology and can be included in the »corporates« exposure class under certain conditions. Also, banks assessed with the rating procedure for insurance companies are assigned to this class. The purpose of the rating procedure for insurance companies is to measures their counterparty risk. For this purpose, insurance companies also include companies that generate most of their income from typical insurance transactions, which also includes bancassurance providers.

All transactions to which the single funds rating method is applied are assigned to the corporates exposure class, as are the associated basic RCPs.

Corporates exposure class: specialized lending exposures.

The rating systems for specialized lending exposures are applied to obligors which are also assigned to the »specialized lending exposures« IRBA exposure class in accordance with Article 147 (8) CRR. They are a subclass of the »corporates« exposure class.

Ratings for project finance are normally based on the cash flow generated or the user/beneficiary of the results of the project. Compared with other types of specialized lending exposures, project finance is distinguished by the fact that net cash is generated from a narrowly defined activity rather than from several parallel business models.

Real estate lending business where the loan is serviced solely from income in the form of rental, lease or sales proceeds arising from the financed item is also assigned to the specialized lending exposures subclass. The rating procedure developed for this is based on the total international commercial real estate finance business if the property being financed is located abroad.

The rating procedure for aircraft finance is applied to finance for a special-purpose vehicle (SPV) and to direct loans to airlines in which there is a direct link to the financed asset (direct asset-linked loan, »virtual SPV«)

All finance coming within the scope of the rating procedure for aircraft finance is assigned to the specialized lending exposures exposure class.

Corporates/specialized lending exposures exposure class: SME check.

Under Article 147 (5) (a) (ii) CRR, (consolidated) annual sales are used as a size indicator (SME threshold).

Corporates are classified as SMEs if they have annual sales of EUR 50 million or less.

Equity investment exposure class.

Equity investments are handled by a special organizational unit. Depending on the type of equity investment, the same rating procedures can be used as for the exposure classes stated above. System allocations and product numbers ensure that they can be clearly identified and assigned to the aforementioned exposure classes or to the »equity investments« exposure class in accordance with Article 147 (6) CRR. In addition, some equity investments are measured using the standard approach in accordance with grandfathering rules (protection of pre-existing legal rights) (see »Capital requirements«, page 18).

Retail business exposure class.

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

LBBW is seeking approval for the use of its own internally estimated loss quotas (IRB-Retail).

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

The following table sets out the exposure classes covered by the IRB approach: central governments, banks, corporates including the specialized lending exposures and SMEs sub-classes as well as equity investments. A further differentiation is made by risk class and geographic location (obligor's domicile). Countries in which LBBW had a branch or for which it held a banking license in 2014 are reported separately, while the sum total of the other countries is reported within »Other«. The following parameters are applied:

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

EUR million Exposure class	Exposure values	of which outstanding credit commitments	Average PD in %	Average risk weight in %	Exposure amount weighted with risk weight
PD classes 1 [(AAAA) - (A-)]/0.00 % to ≤ 0.10 %					
Central governments	40,098	710	0.01	2.08	831
Banks	37,357	88	0.06	7.93	2,962
Corporates	30,368	4,500	0.06	16.88	5,126
of which SMEs	1,804	55	0.06	13.16	237
of which specialized lending exposures	6,223	84	0.06	22.12	1,377
of which purchased receivables	0	0	0.00	0.00	0
Equity investments	166	0	0.09	80.39	133
Total	**107,989**	**5,298**			**9,052**
Broken down by geographical location					
Central governments	**40,098**	**710**	**0.01**	**2.08**	**831**
Germany	31,868	612	0.00	0.00	0
Great Britain	136	0	0.00	0.00	0
United States	2,440	7	0.00	0.00	0
Singapore	51	0	0.00	0.00	0
Republic of Korea	160	0	0.04	20.37	33
Switzerland	13	0	0.00	0.00	0
Mexico	0	0	0.00	0.00	0
Luxembourg	14	0	0.00	0.00	0
Czech Republic	20	0	0.03	13.77	3
Other	5,396	91	0.04	14.75	796
Banks	**37,357**	**88**	**0.06**	**7.93**	**2,962**
Germany	10,289	5	0.06	6.87	707
Great Britain	8,951	0	0.08	7.36	659
United States	7,634	80	0.05	4.25	325
Singapore	56	0	0.07	33.76	19
Republic of Korea	129	0	0.09	35.00	45
Switzerland	921	0	0.05	13.31	123
Mexico	0	0	0.00	0.00	0
Luxembourg	166	0	0.05	11.99	20
Czech Republic	28	0	0.05	28.21	8
Other	9,183	3	0.06	11.51	1,057
Corporates	**30,368**	**4,500**	**0.06**	**16.88**	**5,126**
Germany	23,151	3,938	0.06	16.54	3,829
Great Britain	297	3	0.07	14.22	42
United States	2,892	8	0.08	17.13	495
Singapore	2	0	0.06	23.12	1
Republic of Korea	8	0	0.04	18.19	1
Switzerland	443	156	0.06	27.88	123
Mexico	44	0	0.04	18.24	8
Luxembourg	264	37	0.06	20.14	53
Czech Republic	33	1	0.07	25.48	8
Other	3,234	357	0.06	17.45	564
of which SMEs	**1,804**	**55**	**0.06**	**13.16**	**237**
Germany	1,804	55	0.06	13.16	237
Great Britain	0	0	0.00	0.00	0
United States	0	0	0.00	0.00	0
Singapore	0	0	0.00	0.00	0
Republic of Korea	0	0	0.00	0.00	0
Switzerland	0	0	0.00	0.00	0
Mexico	0	0	0.00	0.00	0
Luxembourg	0	0	0.00	0.00	0
Czech Republic	0	0	0.00	0.00	0
Other	0	0	0.00	0.00	0
of which specialized lending exposures	**6,223**	**84**	**0.06**	**22.12**	**1,377**
Germany	3,541	46	0.05	19.11	677
Great Britain	139	2	0.08	27.30	38
United States	1,488	5	0.08	26.62	396
Singapore	0	0	0.00	0.00	0
Republic of Korea	0	0	0.00	0.00	0
Switzerland	1	0	0.09	29.56	0
Mexico	0	0	0.00	0.00	0
Luxembourg	218	0	0.05	19.70	43
Czech Republic	32	0	0.07	25.48	8
Other	804	30	0.08	26.65	214
Equity investments	**166**	**0**	**0.09**	**80.39**	**133**
Germany	166	0	0.09	80.39	133
Total	**107,989**	**5,298**			**9,052**

EUR million Exposure class	Exposure values	of which outstanding credit commitments	Average PD in %	Average risk weight in %	Exposure amount weighted with risk weight
PD classes 2– 5 / 0.11 % to <= 0.47 %					
Central governments	624	0	0.19	42.81	267
Banks	6,228	99	0.22	35.42	2,206
Corporates	34,125	6,136	0.22	39.97	13,640
of which SMEs	1,603	94	0.26	37.87	607
of which specialized lending exposures	5,573	344	0.23	47.82	2,665
of which purchased receivables	0	0	0.00	0.00	0
Equity investments	12	0	0.26	115.92	14
Total	**40,989**	**6,236**			**16,127**
Broken down by geographic location					
Central governments	**624**	**0**	**0.19**	**42.81**	**267**
Germany	0	0	0.00	0.00	0
Great Britain	20	0	0.13	0.00	0
United States	0	0	0.00	0.00	0
Singapore	0	0	0.00	0.00	0
Republic of Korea	0	0	0.00	0.00	0
Switzerland	0	0	0.00	0.00	0
Mexico	0	0	0.00	0.00	0
Luxembourg	0	0	0.00	0.00	0
Czech Republic	0	0	0.00	0.00	0
Other	604	0	0.19	44.23	267
Banks	**6,228**	**99**	**0.22**	**35.42**	**2,206**
Germany	2,353	60	0.27	33.67	792
Great Britain	927	0	0.13	19.78	183
United States	90	3	0.12	44.57	40
Singapore	12	0	0.12	34.91	4
Republic of Korea	247	0	0.17	53.21	132
Switzerland	14	0	0.38	81.44	11
Mexico	0	0	0.39	86.53	0
Luxembourg	4	0	0.39	65.69	3
Czech Republic	1	0	0.26	53.52	1
Other	2,579	37	0.21	40.30	1,039
Corporates	**34,125**	**6,136**	**0.22**	**39.97**	**13,640**
Germany	27,941	5,208	0.21	39.36	10,999
Great Britain	838	20	0.18	25.68	215
United States	1,457	188	0.21	45.19	658
Singapore	20	0	0.21	45.94	9
Republic of Korea	62	3	0.17	42.75	26
Switzerland	503	156	0.22	44.10	222
Mexico	8	3	0.39	65.69	5
Luxembourg	746	47	0.29	55.58	415
Czech Republic	4	0	0.25	50.66	2
Other	2,546	511	0.23	42.76	1,089
of which SMEs	**1,603**	**94**	**0.26**	**37.87**	**607**
Germany	1,545	93	0.25	37.23	575
Great Britain	0	0	0.00	0.00	0
United States	0	0	0.00	0.00	0
Singapore	0	0	0.00	0.00	0
Republic of Korea	0	0	0.00	0.00	0
Switzerland	58	1	0.39	54.81	32
Mexico	0	0	0.00	0.00	0
Luxembourg	0	0	0.00	0.00	0
Czech Republic	0	0	0.00	0.00	0
Other	1	0	0.26	46.88	0
of which specialized lending exposures	**5,573**	**344**	**0.23**	**47.82**	**2,665**
Germany	2,667	125	0.22	44.93	1,198
Great Britain	291	20	0.28	53.82	157
United States	1,066	132	0.22	46.37	494
Singapore	5	0	0.39	65.69	3
Republic of Korea	0	0	0.00	0.00	0
Switzerland	24	0	0.26	53.15	13
Mexico	0	0	0.00	0.00	0
Luxembourg	567	46	0.27	53.97	306
Czech Republic	0	0	0.00	0.00	0
Other	952	21	0.26	51.82	493
Equity investments	**12**	**0**	**0.26**	**115.92**	**14**
Germany	12	0	0.26	115.92	14
Total	**40,989**	**6,236**			**16,127**

EUR million Exposure class	Exposure values	of which outstanding credit commitments	Average PD in %	Average risk weight in %	Exposure amount weighted with risk weight
PD classes 6– 10 / 0.48% to <= 3.62%					
Central governments	674	0	1.27	80.85	545
Banks	1,537	2	0.96	55.19	848
Corporates	13,022	1,187	1.28	91.31	11,890
of which SMEs	1,836	130	1.26	79.53	1,460
of which specialized lending exposures	3,265	146	1.56	106.62	3,481
of which purchased receivables	0	0	0.00	0.00	0
Equity investments	16	0	2.40	311.02	49
Total	**15,249**	**1,189**			**13,332**
Broken down by geographic location					
Central governments	**674**	**0**	**1.27**	**80.85**	**545**
Germany	71	0	0.59	0.71	1
Great Britain	0	0	0.00	0.00	0
United States	0	0	0.00	0.00	0
Singapore	0	0	0.00	0.00	0
Republic of Korea	0	0	0.00	0.00	0
Switzerland	0	0	0.00	0.00	0
Mexico	0	0	0.00	0.00	0
Luxembourg	0	0	0.00	0.00	0
Czech Republic	0	0	0.00	0.00	0
Other	603	0	1.35	90.24	544
Banks	**1,537**	**2**	**0.96**	**55.19**	**848**
Germany	238	0	1.24	57.42	137
Great Britain	519	0	0.59	18.03	94
United States	41	0	0.59	6.72	3
Singapore	1	0	1.32	107.53	1
Republic of Korea	0	0	0.00	0.00	0
Switzerland	18	0	0.59	42.86	8
Mexico	0	0	0.00	0.00	0
Luxembourg	0	0	0.00	0.00	0
Czech Republic	0	0	0.00	0.00	0
Other	719	2	1.16	84.34	606
Corporates	**13,022**	**1,187**	**1.28**	**91.31**	**11,890**
Germany	9,468	998	1.25	93.69	8,871
Great Britain	79	3	0.85	42.96	34
United States	1,704	49	1.43	79.66	1,358
Singapore	0	0	1.98	121.40	0
Republic of Korea	30	0	0.59	79.40	24
Switzerland	108	20	0.96	93.66	101
Mexico	5	1	2.69	110.41	5
Luxembourg	239	1	0.94	23.52	56
Czech Republic	34	0	0.67	95.95	32
Other	1,355	115	1.44	104.02	1,409
of which SMEs	**1,836**	**130**	**1.26**	**79.53**	**1,460**
Germany	1,820	127	1.26	79.48	1,447
Great Britain	0	0	0.00	0.00	0
United States	1	0	0.88	75.93	1
Singapore	0	0	0.00	0.00	0
Republic of Korea	0	0	0.00	0.00	0
Switzerland	3	2	0.89	57.62	2
Mexico	4	1	2.69	104.35	4
Luxembourg	0	0	0.88	62.54	0
Czech Republic	0	0	0.00	0.00	0
Other	8	0	0.81	88.99	7
of which specialized lending exposures	**3,265**	**146**	**1.56**	**106.62**	**3,481**
Germany	1,258	91	1.30	101.87	1,282
Great Britain	12	0	0.59	79.40	9
United States	1,126	48	1.84	111.43	1,255
Singapore	0	0	0.00	0.00	0
Republic of Korea	0	0	0.00	0.00	0
Switzerland	45	2	0.59	86.55	39
Mexico	0	0	0.00	0.00	0
Luxembourg	24	0	1.03	96.27	23
Czech Republic	31	0	0.59	94.91	29
Other	770	5	1.73	109.75	845
Equity investments	**16**	**0**	**2.40**	**311.02**	**49**
Germany	16	0	2.40	311.02	49
Total	**15,249**	**1,189**			**13,332**

EUR million Exposure class	Exposure values	of which outstanding credit commitments	Average PD in %	Average risk weight in %	Exposure amount weighted with risk weight
PD classes 11– 15 / 3.63 % to <= 99.99 %					
Central governments	73	0	5.60	63.39	47
Banks	535	1	4.78	88.36	472
Corporates	2,013	90	8.99	158.54	3,191
of which SMEs	285	5	7.27	137.96	393
of which specialized lending exposures	765	6	11.67	200.88	1,536
of which purchased receivables	0	0	0.00	0.00	0
Equity investments	0	0	0.00	0.00	0
Total	**2,621**	**91**			**3,710**
Broken down by geographic location					
Central governments	**73**	**0**	**5.60**	**63.39**	**47**
Germany	0	0	0.00	0.00	0
Great Britain	0	0	0.00	0.00	0
United States	0	0	0.00	0.00	0
Singapore	0	0	0.00	0.00	0
Republic of Korea	0	0	0.00	0.00	0
Switzerland	0	0	0.00	0.00	0
Mexico	0	0	0.00	0.00	0
Luxembourg	0	0	0.00	0.00	0
Czech Republic	50	0	3.98	0.00	0
Other	23	0	9.04	198.46	47
Banks	**535**	**1**	**4.78**	**88.36**	**472**
Germany	45	0	4.44	8.61	4
Great Britain	244	0	4.44	8.64	21
United States	0	0	0.00	0.00	0
Singapore	0	0	0.00	0.00	0
Republic of Korea	0	0	0.00	0.00	0
Switzerland	0	0	0.00	0.00	0
Mexico	0	0	0.00	0.00	0
Luxembourg	0	0	0.00	0.00	0
Czech Republic	0	0	0.00	0.00	0
Other	246	1	5.19	182.13	448
Corporates	**2,013**	**90**	**8.99**	**158.54**	**3,191**
Germany	1,249	65	8.57	171.08	2,136
Great Britain	0	0	0.00	0.00	0
United States	363	0	6.41	62.13	226
Singapore	0	0	0.00	0.00	0
Republic of Korea	0	0	0.00	0.00	0
Switzerland	4	0	19.83	249.52	10
Mexico	8	0	9.99	204.24	16
Luxembourg	6	0	8.39	178.46	10
Czech Republic	0	0	0.00	0.00	0
Other	383	25	12.65	206.86	793
of which SMEs	**285**	**5**	**7.27**	**137.96**	**393**
Germany	273	5	7.34	137.81	376
Great Britain	0	0	0.00	0.00	0
United States	0	0	0.00	0.00	0
Singapore	0	0	0.00	0.00	0
Republic of Korea	0	0	0.00	0.00	0
Switzerland	0	0	20.00	153.18	0
Mexico	0	0	6.67	102.24	0
Luxembourg	0	0	0.00	0.00	0
Czech Republic	0	0	0.00	0.00	0
Other	12	0	5.56	141.53	16
of which specialized lending exposures	**765**	**6**	**11.67**	**200.88**	**1,536**
Germany	354	4	9.31	187.57	664
Great Britain	0	0	0.00	0.00	0
United States	87	0	12.50	205.61	179
Singapore	0	0	0.00	0.00	0
Republic of Korea	0	0	0.00	0.00	0
Switzerland	0	0	0.00	0.00	0
Mexico	8	0	10.00	204.67	16
Luxembourg	2	0	4.44	114.19	2
Czech Republic	0	0	0.00	0.00	0
Other	314	1	14.19	214.91	675
Equity investments	**0**	**0**	**0.00**	**0.00**	**0**
Germany	0	0	0.00	0.00	0
Total	**2,621**	**91**			**3,710**

EUR million Exposure class	Exposure values	of which outstanding credit commitments	Average PD in %	Average risk weight in %	Exposure amount weighted with risk weight
PD classes 16– 18 / 100 % (default)					
Central governments	2	0	100.00	-	0
Banks	2	0	100.00	-	0
Corporates	3,161	22	100.00	-	0
of which SMEs	185	2	100.00	-	0
of which specialized lending exposures	644	2	100.00	-	0
of which purchased receivables	0	0	0.00	-	0
Equity investments	0	0	0.00	-	0
Total	**3,166**	**22**			**0**
Broken down by geographic location					
Central governments	**2**	**0**	**100.00**	**-**	**0**
Germany	0	0	0.00	-	0
Great Britain	0	0	0.00	-	0
United States	0	0	0.00	-	0
Singapore	0	0	0.00	-	0
Republic of Korea	0	0	0.00	-	0
Switzerland	0	0	0.00	-	0
Mexico	0	0	0.00	-	0
Luxembourg	0	0	0.00	-	0
Czech Republic	0	0	0.00	-	0
Other	2	0	100.00	-	0
Banks	**2**	**0**	**100.00**	**-**	**0**
Germany	0	0	100.00	-	0
Great Britain	0	0	0.00	-	0
United States	0	0	0.00	-	0
Singapore	0	0	0.00	-	0
Republic of Korea	0	0	0.00	-	0
Switzerland	0	0	0.00	-	0
Mexico	0	0	0.00	-	0
Luxembourg	0	0	0.00	-	0
Czech Republic	0	0	0.00	-	0
Other	2	0	100.00	-	0
Corporates	**3,161**	**22**	**100.00**	**-**	**0**
Germany	2 514	20	100.00	-	0
Great Britain	0	0	100.00	-	0
United States	230	0	100.00	-	0
Singapore	0	0	0.00	-	0
Republic of Korea	0	0	0.00	-	0
Switzerland	4	0	100.00	-	0
Mexico	0	0	100.00	-	0
Luxembourg	22	0	100.00	-	0
Czech Republic	4	0	100.00	-	0
Other	386	2	100.00	-	0
of which SMEs	**185**	**2**	**100.00**	**-**	**0**
Germany	183	2	100.00	-	0
Great Britain	0	0	0.00	-	0
United States	0	0	0.00	-	0
Singapore	0	0	0.00	-	0
Republic of Korea	0	0	0.00	-	0
Switzerland	0	0	0.00	-	0
Mexico	0	0	0.00	-	0
Luxembourg	0	0	0.00	-	0
Czech Republic	0	0	0.00	-	0
Other	2	0	100.00	-	0
of which specialized lending exposures	**644**	**2**	**100.00**	**-**	**0**
Germany	303	0	100.00	-	0
Great Britain	0	0	0.00	-	0
United States	213	2	100.00	-	0
Singapore	0	0	0.00	-	0
Republic of Korea	0	0	0.00	-	0
Switzerland	0	0	0.00	-	0
Mexico	0	0	0.00	-	0
Luxembourg	0	0	0.00	-	0
Czech Republic	0	0	0.00	-	0
Other	128	0	100.00	-	0
Equity investments	**0**	**0**	**0.00**	**-**	**0**
Germany	0	0	0.00	-	0
Total	**3,166**	**22**			**0**

EUR million Exposure class	Exposure values	of which outstanding credit commitments	Average PD in %	Average risk weight in %	Exposure amount weighted with risk weight
Total					
Central governments	41,472	710	0.04	4.07	1,690
Banks	45,659	190	0.17	14.21	6,488
Corporates	82,689	11,935	4.47	40.93	33,847
of which SMEs	5,713	286	4.10	47.22	2,698
of which specialized lending exposures	16,470	581	4.86	55.00	9,059
of which purchased receivables	0	0	0.00	0.00	0
Equity investments	194	0	0.29	101.32	196
Total	**170,013**	**12,835**			**42,221**
Broken down by geographic location					
Central governments	**41,472**	**710**	**0.04**	**4.07**	**1,690**
Germany	31,939	612	0.00	0.00	1
Great Britain	156	0	0.02	0.00	0
United States	2,440	7	0.00	0.00	0
Singapore	51	0	0.00	0.00	0
Republic of Korea	160	0	0.04	20.37	33
Switzerland	13	0	0.00	0.00	0
Mexico	0	0	0.00	0.00	0
Luxembourg	14	0	0.00	0.00	0
Czech Republic	70	0	2.86	3.91	3
Other	6,629	91	0.25	24.95	1,654
Banks	**45,659**	**190**	**0.17**	**14.21**	**6,488**
Germany	12,925	65	0.14	12.69	1,640
Great Britain	10,642	0	0.21	9.00	957
United States	7,765	83	0.06	4.73	368
Singapore	69	0	0.09	34.73	24
Republic of Korea	377	0	0.14	46.95	177
Switzerland	953	0	0.06	14.85	142
Mexico	0	0	0.39	86.53	0
Luxembourg	170	0	0.06	13.32	23
Czech Republic	29	0	0.06	29.31	9
Other	12,728	43	0.26	24.75	3,150
Corporates	**82,689**	**11,935**	**4.47**	**40.93**	**33,847**
Germany	64,323	10,228	4.37	40.16	25,834
Great Britain	1,214	25	0.20	24.00	291
United States	6,647	245	4.26	41.18	2,737
Singapore	23	0	0.22	44.47	10
Republic of Korea	99	3	0.29	51.93	52
Switzerland	1,062	332	0.71	42.96	456
Mexico	65	4	1.50	53.92	35
Luxembourg	1,277	86	2.14	41.81	534
Czech Republic	75	1	5.38	57.23	43
Other	7,905	1,011	7.02	48.77	3,855
of which SMEs	**5,713**	**286**	**4.10**	**47.22**	**2,698**
Germany	5,626	282	4.11	46.85	2,636
Great Britain	0	0	0.00	0.00	0
United States	1	0	0.88	75.93	1
Singapore	0	0	0.00	0.00	0
Republic of Korea	0	0	0.00	0.00	0
Switzerland	60	2	0.44	55.09	33
Mexico	4	1	2.72	104.33	4
Luxembourg	0	0	0.88	62.54	0
Czech Republic	0	0	0.00	0.00	0
Other	22	1	11.61	108.49	24
of which specialized lending exposures	**16,470**	**581**	**4.86**	**55.00**	**9,059**
Germany	8,124	267	4.44	47.03	3,820
Great Britain	442	23	0.23	46.15	204
United States	3,980	186	6.23	58.41	2,325
Singapore	5	0	0.39	65.69	3
Republic of Korea	0	0	0.00	0.00	0
Switzerland	71	2	0.47	74.06	52
Mexico	8	0	10.00	204.67	16
Luxembourg	810	46	0.24	46.13	374
Czech Republic	63	0	0.32	59.38	37
Other	2,967	58	6.35	75.05	2,227
Equity investments	**194**	**0**	**0.29**	**101.32**	**196**
Germany	194	0	0.29	101.32	196
Total	**170,013**	**12,835**			**42,221**

Figure 20: Exposure values used for ratings (excluding retail) under the IRB approach (Article 452 (e) and (j) (ii) CRR).

Actual losses from lending business.

The following table sets out actual losses from lending business reported in accordance with CRR using the IRB approach (including derivatives and banking book securities, but not including securitization positions that form a separate exposure class within CRR). Actual losses are defined as the total of direct write-downs and the total of additions and reversals of specific valuation allowances/provisions less recoveries on loans and advances already written off.

EUR million	Actual losses from lending business (including securities and derivatives)		
Exposure classes	In the period 1 Jan. 2014 to 31 Dec. 2014	In the period 1 Jan. 2013 to 31 Dec. 2013	Changes
Central governments	0	– 8	8
Banks	– 2	– 4	2
Corporates	127	157	– 29
of which corporates - SMEs*	34	n/a	-
of which corporates - specialized lending exposures*	13	n/a	-
Equity investments	23	31	– 8
Retail business	0	0	0
Total	**149**	**176**	**– 27**

* These classes were not reported separately in the previous year.

Figure 21: Actual losses from lending business (Article 452 (g) CRR).

Actual losses in 2014 were down in comparison with the previous year. There were substantial improvements in the corporates exposure class.

Expected and actual losses from traditional lending business.

The following table compares expected and actual losses for transactions reported under the IRB approach in accordance with CRR. The information relates only to traditional lending business (not including banking book securities, securitizations or derivatives) for the respective exposure classes under the IRB approach.

Actual losses are defined as total direct write-downs and total additions and reversals of specific valuation allowances/provisions less recoveries on loans and advances already written off. Expected loss (EL) is calculated according to the IRB approach and only includes lending business with a probability of default (PD) of less than 100% as at 1 January 2014.

EUR million	Losses from traditional lending business (excluding securities in the banking book and derivatives)					
	Period 1 Jan. 2014 to 31 Dec. 2014		Period 1 Jan. 2013 to 31 Dec. 2013		Period 1 Jan. 2012 to 31 Dec. 2012	
Exposure classes	Expected loss (EL)	Actual loss	Expected loss (EL)	Actual loss	Expected loss (EL)	Actual loss
Central governments	1	0	3	0	0	1
Banks	14	1	13	0	13	2
Corporates	227	152	233	221	276	255
of which corporates - SMEs*	24	29				
of which corporates - specialized lending exposures*	74	25				
Equity investments	15	23	17	31	17	14
Retail business	0	0	0	0	0	0
Total	**257**	**177**	**266**	**252**	**306**	**272**

* These classes were not reported separately in the previous year.

Figure 22: Expected and actual loss from traditional lending business (Article 452 (i) CRR).

Actual loss in the corporates exposure class was again substantially lower than expected loss.

8 Use of credit risk mitigation techniques. (Article 453 CRR)

Processes for managing and acknowledging credit risk mitigation techniques.

Credit risk mitigation is managed in accordance with the stipulations on admissible types of collateral and value bases set out in the Bank's rule books. LBBW has implemented the regulatory requirements for collateral management in order to include collateral in the capital backing calculations.

Risk mitigation.

Registered liens, guarantees, financial collateral and credit derivatives are considered to mitigate risk.

Main types of collateral.

Traditional lending business.

- Real estate secured by liens
- Guarantees/warranties from domestic and foreign local authorities and banks, as well as guarantees mainly from government export credit insurers. These usually consist of guarantors with investment grade credit ratings.

Capital markets business.

In addition to traditional collateral in lending business, LBBW also utilizes various hedging instruments to mitigate risk in trading and capital markets business for regulatory purposes. The following types of collateral are primarily used:

- Financial collateral (securities, deposits)
- Eligible guarantees and credit derivatives
- Netting agreements for derivatives plus collateral agreements (in accordance with Chapter 9)

Credit derivatives are transacted mainly with counterparties in the financial sector that generally have very good credit ratings.

The main hedging instruments used by LBBW are also employed for regulatory purposes as they satisfy the requirements of eligible credit risk mitigation techniques.

The LBBW subsidiaries do not use any credit risk mitigation techniques going beyond those of LBBW (Bank).

Measuring and managing the collateral used.

The procedures for measuring and managing the collateral eligible under CRR are set out in the Bank's regulations.

The internal processes and systems in place ensure that collateral is only used for weighting if it meets all CRR requirements. Collateral is initially measured upon receipt. Values are calculated and carrying amounts are regularly reviewed by the back office divisions. Regardless of this, collateral is checked for impairment immediately if information that has an impact on its value becomes known. If a significant positive correlation between the value of an item of collateral and the borrower providing the collateral is established, the collateral in question is not included.

Notes on main types of collateral:

- Real estate secured by liens

Real estate collateral is measured on the basis of opinions by recognized experts and, in the case of small loans, in accordance with Section 24 BelWertV (Regulation on the Determination of Mortgage Lending Values) by the front and back offices with the help of a computer-assisted program.

LBBW uses statistical methods (market fluctuation concept) of the central associations of the German banking industry for certain types of real estate in order to identify real estate requiring particular review or a revaluation.

- Warranties/guarantees

The measurement of a guarantor in the context of a traditional lending transaction or of a collateral provider in the case of a credit derivative is, as a rule, carried out by means of a credit assessment and rating determination.

Loan collateral is recorded and continuously reviewed in the collateral management system using all relevant inputs.

- Credit derivatives

Credit derivatives with a hedging effect are essentially charged as guarantees for regulatory purposes. The process for accepting a credit derivative as collateral is documented in the relevant internal rules. One exception to charging credit derivatives as a guarantee is on-balance-sheet forms of credit derivative; such as own credit-linked note issues as the protection purchaser, which are charged as cash hedging, i.e. as financial collateral.

In the case of domestic standard collateral, the contract templates issued by Deutscher Sparkassen- und Giroverband are mostly used to mitigate legal risks. In addition, the Legal Department has drafted contract templates which are used by the divisions after approval. Legal efficacy is ensured at all times; at the same time, the underlying legal conditions are subject to ongoing observation.

Management of concentration risks in the credit and collateral portfolio.

In measuring the risk arising from collateral, LBBW distinguishes between collateral in traditional lending business and collateral in capital markets business.

In traditional lending business, options exist for evaluating real estate, e.g. according to region or type of use. Guarantees are applied to the applicable limits.

Concentrations of collateral in capital markets business are limited by a restrictive collateral policy. Individual and portfolio risks (e.g. those in relation to repo and securities lending transactions) are regularly monitored by means of a steering committee within trading. Concentrations of collateral in the case of OTC derivatives are prevented by only accepting cash collateral or first class sovereign bonds. In addition, continuous measurement of collateral contributes to risk limitation.

The collateral portfolio for OTC derivatives is documented on a monthly basis in management reporting and includes statistical information as well as details of the largest providers and takers of collateral within LBBW.

Total amount of secured exposure values (not including securitization).

The following table shows the exposure amounts by CRSA exposure classes secured by financial collateral, endowment policies or guarantees (including warranties and credit derivatives).

EUR million Exposure class	Financial collateral	Endowment policies	Guarantees and credit derivatives
Central governments	0	0	0
Regional governments	0	0	1
Other public sector agencies	1	0	13
Multilateral development banks	0	0	0
International organizations	0	0	0
Banks	2,158	0	0
Covered bonds issued by banks	0	0	0
Corporates	1,930	9	2,738
Retail business	45	129	219
Items secured by real estate	0	0	0
Investment units	0	0	0
Equity investments	0	0	0
Other items	0	0	0
Past due items	3	5	31
Risk exposure to banks and corporates with a short-term credit rating	0	0	0
Items exposed to particularly high risk	0	0	0
Total	**4,137**	**143**	**3,003**

Figure 23: Total amount of the secured exposure values under the CRS approach (not including securitization) (Article 453 (f) CRR).

The following table shows the exposure values under the IRB approach secured by financial collateral, other or physical collateral, endowment policies or guarantees (including warranties and credit derivatives).

EUR million Exposure class	Financial collateral	Other/ physical collateral	Endowment policies	Guarantees and credit derivatives
Central governments	265	0	0	21
Banks	51,159	61	0	544
Other assets not relating to credit	0	0	0	0
Retail business	0	0	0	0
Equity investments	0	0	0	0
Corporates	12,467	12,244	186	4,694
of which SMEs	54	2,401	25	367
of which specialized lending exposures	37	3,992	9	588
Total	**63,892**	**12,305**	**186**	**5,259**

Figure 24: Total amount of the secured exposure values under IRB approach (not including securitization) (Article 453 (f) CRR).

The increase in the value of financial collateral over the previous year is due to the changes in the reporting system for business with central counterparties compared with the previous year. Up until 2013, no capital backing was required for repos with central counterparties (CCPs). This meant that the relevant collateral was not reported. Since 2014, capital backing has been required for these transactions. Consequently, they are duly reported together with the applicable financial collateral.

9 Exposure to counterparty risk. (Article 439 CRR)

Capital allocation on the basis of economic capital.

LBBW has defined limits at the customer level for derivatives. Capital is allocated on the basis of economic capital. However, separate limits are not defined for derivatives. Limits are defined with the generally applicable processes for limiting counterparty risks - see Chapter 4 section »Economic management«.

Risk mitigation measures.

At LBBW, risk mitigation measures in connection with derivative counterparty risk items are applied by means of master netting agreements and the hedging of OTC derivatives (cash and securities-based collateral).

The procedure for entering into and managing master agreements for OTC derivative netting and collateral agreements is stipulated in the Bank's internal rules and the working instructions of the responsible back office. OTC derivatives are netted if corresponding master netting agreements have been entered into.

Furthermore, derivative transactions (with the exception of credit derivatives) are entered into with savings bank customers via an intermediary procedure, which are guaranteed by the intermediary savings bank.

Impact of a possible LBBW rating downgrade on the collateral amount to be provided.

In the majority of cases, the agreements entered into do not provide for any increase in collateral in the event of an LBBW rating downgrade. However, some counterparties stipulate an incremental increase in collateral in the event of a downgrade of LBBW's rating.

Allowances for losses on loans and advances.

Credit risks for derivative transactions are recognized by means of a counterparty valuation adjustment in addition to the general assessment of the counterparty's creditworthiness.

Correlation between market price risks and credit risks.

Market price risks and credit or counterparty risks are pooled using economic capital under the Group-wide economic capital limit.

The economic capital of the various types of risk is aggregated taking correlations into account. The assumed correlation between market price risks and credit risks is based on a time-series analysis. This views any changes in value based on LBBW's current portfolio.

Derivative counterparty risk items and netting positions.

In contrast to the presentation in internal risk management (see annual report), transactions are assigned to contract type according to the definition of market risk positions in CRR.

The following table shows the derivative counterparty risk items in the form of the positive market values (corresponding to potential replacement costs before add-ons in accordance with Article 274 CRR) before and after charging derivative netting positions and collateral, broken down by type of contract.

EUR million Type of contract	Positive replacement costs before netting and collateral	Netting possibilities	Eligible collateral	Positive replacement costs after netting and collateral
Interest rate-related contracts	43,554			
Currency-related contracts	4,516			
Share/index-related contracts	373			
Credit derivatives	382			
Commodity-linked contracts	129			
Other contracts	7			
Total	**48,962**	**36,974**	**2,443**	**9,544**

Figure 25: Positive replacement costs before and after charging netting agreements and collateral (Article 439 (e) CRR).

The positive replacement costs for interest-rate-related contracts rose substantially over the previous year. A sharp decline in interest rates resulted in increased market values. In view of the large clearing volumes in portfolio business and portfolio compression of non-cleared transactions, these measures were applied to a substantially lower number of transactions, resulting in a considerably smaller compensation effect.

The following table shows the counterparty risks of the derivative counterparty risk items to be included in the form of the exposure amount after credit risk mitigation for the respective method used. Generally speaking, the conversion factor (CCF) is not applied to derivatives. LBBW uses the mark-to-market method for this purpose. The exposure values also include the add-on for future expected increases in the present potential replacement costs.

EUR million	Accrual method	Market valuation method	Standard method	Internal model
Counterparty credit risk positions	0	18,080	0	0

Figure 26: Exposure to counterparty credit risk (Article 439 (f) CRR).

The following table sets out the nominal amount of the eligible credit derivatives under regulatory requirements used for hedging credit risks in the banking book.

EUR million	Nominal value of hedges
Credit derivatives (protection buyer)	15

Figure 27: Nominal value of credit derivatives for hedging credit risks in the banking book (Article 439 (g) CRR).

The following table sets out the nominal amounts of the credit derivatives bought and sold for the Bank's own credit portfolio by type of credit derivative. Credit derivatives from brokering activities were not used by LBBW in 2014.

EUR million	Nominal value from use of own credit portfolio	
Type of contract	Bought	Sold
Credit default swaps	9,967	13,464
Total return swaps	1,873	1,250
Credit linked note	3,402	614
Other	0	0
Total	**15,242**	**15,328**

Figure 28: Nominal value of credit derivatives by type of use (Article 439 (h) CRR).

In contrast to the annual report, transactions are classified here according to the CRR definition of market risk positions.

10 Securitization positions. (Article 449 CRR)

Securitization positions in the banking book.

LBBW holds securitization positions in its function as an investor and a sponsor. The originator positions still in existence are being run off.

Investor positions.

In connection with efforts to restructure the Bank, credit substitute business, a material part of which entailed securitization positions, has very largely been run off. In 2014, the Bank invested in a securitization transaction based on leasing receivables from SME customers in accordance with the rules of the internal credit risk strategy. The investment was valued at EUR 27.5 million. There were no other securitization investments in 2014.

In earlier years, LBBW primarily continued to invest in collateralized loan obligations (CLOs) and other asset-backed securities (ABSs).

Investor position risk is regularly monitored on the basis of the trustee reports.

External ratings are generally available for investor positions, which lead to the application of the ratings-based approach (IRBA). Independently of the type of securitized exposures and securitization positions, LBBW takes into account the ratings of the recognized rating agencies Standard & Poor's Ratings Services, Moody's Investors Service or Fitch Ratings Ltd. The securitization positions mostly have a good to first-class rating.

Sponsor positions.

LBBW acts as a sponsor and/or arranger of securitization programs as part of customer transactions, offering customers innovative, capital market-oriented financing alternatives.

In its role as sponsor and/or arranger of customer transactions, LBBW continued to support high net-worth SMEs with new financing solutions in 2014. This type of securitization is to be expanded under plans to focus more keenly on target customers. The aim is to harness cross-selling potential with existing customers and to use this form of finance selectively for attracting new customers meeting the target customer definition formulated for corporate customer business.

As part of its securitization programs, LBBW provides the appropriate »Weinberg Funding« and »Weinberg Capital« special-purpose vehicles with liquidity facilities as well as swap lines if necessary in addition to its role as a service provider. The liquidity lines are carried in the banking book. LBBW also acts as collateral trustee for these SPVs.

In its capacity as a service provider, LBBW is exclusively responsible for structuring, managing and coordinating the customer transactions. It also manages the bank accounts which the SPVs hold at LBBW. Furthermore, LBBW acts as a dealer for the euro commercial paper of the Weinberg program.

The liquidity risks accepted in connection with pledges for liquidity facilities are recorded on a quarterly basis by LBBW's Liquidity Controlling. Corresponding work instructions have been issued to mitigate operational risks (particularly those arising from the function as Weinberg administrator). Risk from liquidity lines is assessed at least once every quarter for trading receivables and at least once annually for interest-bearing receivables by the relevant front and back offices. The back office informs the front office of any irregularities in the course of the transaction. Moreover, the front office informs the back office immediately of any changes in the ratings of the parties involved as they become known. The back office incorporates the information in the next rating review. Likewise, the front office notifies the back office immediately of any termination events reported by the company (for example, covenant breaches) or if there are imminent signs of a termination event (possible early indications given during conversations). The front office decides whether or not to support a waiver request from the company. Waiver requests are reviewed and processed by the back office with regard to their risk content. In this connection, proposals for the following steps to be taken are drawn up in consultation with the front office.

All securitization positions for which LBBW reports risk-weighted securitization values as a sponsor are rated using the Internal Assessment Approach (IAA). The IAA was also applied to one transaction predominantly comprising risk positions measured under the standard approach in accordance with Article 109 (1) Sentence 2 CRR, although the risk weighting tables under Article 251 CRR (standard approach) were applied. All other transactions use the risk weighting tables under Article 261 CRR (IRB approach).

The commercial papers issued by the Weinberg multiseller conduit can be either euro commercial papers (issued by Weinberg Capital Ltd., Dublin) or, since 2011, US commercial papers (issued by Weinberg Capital Ltd., Dublin, with co-issuer Weinberg Capital LLC, Delaware). However, the conduits did not issue any US commercial paper in 2014. The commercial papers are rated by Moody's Investors Service and Fitch Ratings Ltd.

Apart from the Weinberg program (including the associated constructs/SPVs) no other special-purpose vehicles are advised or managed by LBBW as sponsor or originator.

Originator positions.

In its function as the original originator, LBBW was involved in the ABS transaction »Prime« (securitization of mezzanine profit-participation rights under the name »SmartMezzanine« in connection with the impending clearing operation last year. The portfolio of securitized profit-participation rights has been static since the transaction was issued – no further assets have been purchased. Following repayment of most of the portfolio in August 2013 the transaction is now being run off.

The securities (classes A - E) issued by »Prime« were rated by Fitch Ratings Ltd., Standard & Poor's Ratings Services and Moody's Investors Service. Alongside the usual rating-induced risks of subordinated profit-participation rights, this transaction is also subject to risks arising from risk-relevant activities on the part of third parties on which we have no influence (e.g. portfolio management).

LBBW is a limited partner in the special-purpose vehicle and holds 47.5 % of its capital. Moreover, LBBW has granted the special-purpose vehicle a shareholder loan and acts as a swap counterparty for half of the portfolio volume in question as part of the transaction-specific interest rate hedge.

Presentation of the procedures for determining exposure values.

Under the internal credit risk strategy, new securitization positions may be transacted with the Bank's core customers up to a certain limit provided that a nuanced analysis of the risk profile is performed and documented in the light of the transaction drivers which are liable to exert a direct or indirect effect on the risk profile of the securitization position.

With the exception of underlying retail tranches, investor positions are recognized as IRB securitization positions while the underlying retail tranches (such as credit cards) and the positions from the refinancing of own conduits that hold investor positions are recognized as CRSA securitization positions.

The Bank normally uses the ratings based approach in the investor portfolio for IRB securitization positions and the derived credit rating assessment only sporadically.

The majority of investments are classified as high quality and granular and normally have at least one rating from a recognized rating agency on acquisition. If no external rating is available, the Bank applies the supervisory formula approach in accordance with the IRB approach.

The liquidity lines and swaps (sponsor positions) provided as part of the ABCP program are weighted using the Internal Assessment Approach (IAA). To this end, LBBW developed and rolled out corresponding models for measuring trading and interest-bearing receivables in 2008. The IAA method is generally based on publicly available models of the rating agencies.

The IAA module for the securitization of trading receivables takes into account the asset credit risk (credit rating risks) and the seller risk (validity risks) as counterparty risk. The latter includes the dilution and the commingling risk as further sub-categories. In addition, the IAA module covers the transaction risk that emerges if a seller is no longer able to bear the transaction costs incurred (e.g. SPV costs, funding costs). This is typically the case in the event of a premature winding-down of the transaction following the seller's insolvency. The module for interest-bearing receivables is based on the assumption that there are no open residual value risks and that the portfolios are granular. Interest-bearing receivables such as trading receivables make a distinction between the risks of the asset pool (asset credit risk) and seller risks (in addition to the dilution risk, commingling risk and transaction/funding costs risk including interest rate risk). If there is an excess spread, a prepayment risk may result. The prepayment risk is the risk that, as a result of an early termination of the contract underlying the interest-bearing receivable, the future excess spread of this receivable is no longer available as a credit enhancement.

The chart below shows the allocation of potential losses, broken down into the four main types of risk, to the individual credit enhancement components:

Asset credit risk	Dilution risk	Transactions costs	Commingling risk	
Liquidity facility	Liquidity facility	Liquidity facility	Liquidity facility	
	Funding cost reserve	Dilution reserve	Dilution reserve	Funding cost reserve
Sec. Loss Piece (surety or credit agreement)	Dilution reserve	Funding cost reserve		
First loss piece seller	Seller	Seller	Seller	

Figure 29: Principal types of risk on credit enhancement components.

The internal classification methods of the liquidity lines for the securitization of trading receivables and interest-bearing receivables have a quantitative and a qualitative part. The result of the quantitative part is an expected loss (EL) percentage which can be assigned to an external rating in line with the Moody's scale.

EL (upper limit)	Moody's	Midpoint EL
0.0000 %	Aaa	0.0000 %
0.0003 %	Aa1	0.0002 %
0.0007 %	Aa2	0.0005 %
0.0017 %	Aa3	0.0012 %
0.0032 %	A1	0.0024 %
0.0060 %	A2	0.0046 %
0.0214 %	A3	0.0137 %
0.0495 %	Baa1	0.0354 %
0.0935 %	Baa2	0.0715 %
0.2310 %	Baa3	0.1623 %
0.4785 %	Ba1	0.3548 %
0.858 %	Ba2	0.6683 %
1.5455 %	Ba3	1.2018 %
2.5740 %	B1	2.0598 %
3.938 %	B2	3.2560 %
6.3910 %	B3	5.1645 %
14.3000 %	Caa	10.3455 %

Figure 30: Rating scale according to Moody's for securitization positions.

Scorecards for specific risk types have been developed for the derivative part to ensure an objective evaluation of the risk factors. The result of the scorecards (a figure between +2 and – 2, which corresponds to a rating upgrade or downgrade of up to +2 or – 2 notches) then results in an upgrade or downgrade of the quantitative rating.

The IAA module is also used for assessing the risk of the liquidity lines (rating review/ rating renewal) for trading receivables and for interest-bearing receivables by the relevant front and back office divisions.

The internal rating procedure is validated on an annual basis. This is overseen by an organizational unit within Group Risk Control, which examines the results of the IAA module, the model design and data quality.

The validation results are submitted to the front and back offices that manage the ABCP program or the securitization positions that are assessed with the IAA modules. The Risk Committee and/or the Board of Managing Directors verifies the validation results.

The internal classification procedure for trading and interest-bearing receivables is based on the assumption of log-normal distribution of loss (approach based on stress factors) for the asset credit risk and for any dilution risks. The amount of the credit enhancement (CE) required for a specific target rating and thus the rating of the liquidity line with a predetermined amount of CE automatically adjusts to the volatility of the loss distribution. The greater the volatility of the loss distribution, the higher the necessary CE or the weaker the rating for a predetermined CE will be. The fact that the volatility of the loss distribution is taken into consideration and the objective and risk-sensitive choice of stress factors which this makes possible is one of the key reasons why the log-normal approach is also used for the asset class of trading receivables.

If LBBW purchases commercial papers (CP) under its own ABCP program, this is classified as an overlapping position under Article 246 (2) CRR. This means that the risk exposures are backed by the risk weightings of the securitization liquidity facilities provided by LBBW under Article 246 (3) CRR.

As LBBW does not have any »Prime« transaction notes, it does not have any procedure for determining the values of originator positions.

Securitization positions in the trading book.

LBBW did not trade in any trading-book securitization positions in 2014. It only has transactions from previous years in which it acted as an intermediary between the brokers and dealers for CDS, on the one hand, and LBBW customers, on the other. In these existing transactions LBBW now only acts as portfolio manager of the positions.

One customer transaction is rated by Moody's Investors Service.

These transactions result in counterparty and market- related risks as well as liquidity, legal and reputation risks for the trading book of LBBW.

The securitization positions held in the portfolio are marked to the market and fully hedged. This means that no additional hedging transactions are executed to mitigate risk.

There were no further activities in connection with trading-book securitizations apart from those mentioned above in the reporting period. LBBW does not have any retained or assumed resecuritization positions from this. No third-party positions were securitized and, hence, no securitization SPVs used in 2014.

Accounting policies for securitization positions.

LBBW essentially held the role of an originator, investor, sponsor and/or arranger, service provider (structuring, administration, coordination, account maintenance), securities trustee or bank providing liquidity in securitization transactions for special-purpose vehicles. Moreover, it was the collateral taker in 2014 in connection with a securitization portfolio and the funding for Sealink (risk shield).

As at 31 December 2014 LBBW did not hold any assets connected with securitization transactions without the transfer of receivables or earmarked for securitization.

Consolidation rules.

Under IFRS 10, a special-purpose vehicle is assumed to be controlled by LBBW or one of its subsidiaries if the role that it plays with respect to the special-purpose vehicle cumulatively satisfies the following three conditions:

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

The consolidation of special-purpose vehicles is not dependent on the amount of the capital investment or the percentage of voting rights. The accounting basis for consolidation under IFRS may deviate from the regulatory group due to differing statutory conditions for consolidation.

The following special-purpose vehicles in connection with securitization transactions were included in the IFRS consolidated financial statements as at 31 December 2014:

- Spencerview Asset Management Ltd.
- Weinberg Capital Ltd. (consolidated for the first time from 2014)
- Weinberg Funding Ltd. (consolidated for the first time from 2014)

All the assets and liabilities held by these SPVs are included in LBBW's consolidated financial statements.

If the link between LBBW and a special-purpose vehicle does not result in the latter's consolidation in the IFRS consolidated financial statements, only the relationship to the special-purpose vehicle is reflected in the balance sheet.

In LBBW's separate financial statements under HGB, the debt capital with which the special-purpose vehicles are provided is classified as a loan.

LBBW as originator.

In its role as an originator of the »Prime« securitization transaction, LBBW initially placed profit-participation rights on its own balance sheet up until autumn 2008. Receivables generated in this way were resold to the »Prime« SPV. By performing true sale transactions, LBBW ensured that it retained neither the rights nor obligations. In accordance with HGB (IDW RS HFA 8) and IAS 39.20a, LBBW no longer reports any assets or liabilities from this transaction on the face of its balance sheet.

LBBW as investor.

The securitization products acquired by the LBBW Group as an investor (mainly CLOs and other ABSs) are allocated to the banking book for regulatory purposes.

In accordance with IFRS, the products were assigned to the »held for trading«, »fair value option«, »available for sale« or »loans and receivables« categories at the time of their acquisition and duly measured on the basis of their documented purpose in accordance with the criteria defined in IAS 39.9. As at 1 July 2008 major portions of the portfolio were reallocated from the »held-for-trading« category in accordance with IAS 39.50(c) in conjunction with IAS 39.50B and 50D or from the »available-for-sale« category in accordance with IAS 39.50E to the »loans and receivables« category (for more information on IFRS accounting see also the consolidated financial statements of LBBW, Note 6 on financial instruments).

Financial instruments which are categorized as »held for trading« or »fair value option« are measured at their fair value. Net measurement and realized gains and losses are reported within net gains and losses from financial instruments measured at fair value. Current income is reported within net interest result.

Financial instruments which are classified as available for sale are measured at fair value. Net measurement gains and losses are reported within equity (revaluation reserve). In the event of an impairment or disposal, the net gains and losses are recycled to profit and loss and reported within net gains and losses from financial assets. Current net gains and losses are reported within net interest result.

Fair value is defined in accordance with IFRS 13 as the price at which an asset or liability could be exchanged at the measurement date in an orderly transaction between market participants. Reference should be made to Note 55 of the Annual Report for further information on the measurement of the fair value of financial instruments.

Financial instruments which are classified as loans and receivables are measured at amortized cost. Any impairment recognized through profit and loss is reported within net income from financial assets. Current income is reported within net interest result.

For impaired securitizations or securitizations for which sufficiently current fair prices are not available the fair values are calculated on the basis of measurement 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. The assumptions are selected by the back office of the LBBW Group with the utmost care. The parameters to be established are defaults, recovery ratios and early repayment ratios. These are calculated per asset class. Investment bank and rating agency research as well as the Bank's own observations or derivations from the transactions are used to determine these parameters. The projections are calculated on the basis of the expectations regarding the macroeconomic environment taking into account the available historical data. There were no material changes in the measurement methodology compared with the previous period.

Under HGB, the securitization products were assigned to the trading portfolio, the liquidity reserve and the holdings of securities valued as non-current assets. As at 1 January 2008 material parts of the portfolio were reallocated from the trading portfolio and the liquidity reserve to the portfolio of securities recognized as non-current assets due to the change in intended purpose.

Securities held for trading are measured at their fair value less a risk discount in accordance with Section 340e (3) of the German Commercial Code (VaR - value-at-risk) and the special item for general banking risks in accordance with Section 340g and Section 340e (4) of the German Commercial Code. Net measurement and realization gains and losses are reported within net income from the trading book. Current net gains and losses are reported within net interest result.

Liquidity reserve securities are measured in line with the strict principle of lower of cost or market and write-downs are reversed as required. Gains and losses on remeasurement and realization are netted and shown under depreciation and write-downs on receivables and certain securities and additions to provisions for credit risks. Current income is reported within net interest result.

Securities treated as non-current assets are measured in line with the moderated principle of lower of cost or market and write-downs are reversed as required. Gains and losses on remeasurement and realization are netted and shown under income from reversals of impairments of equity investments, shares in affiliates and securities treated as non-current assets. Current income is reported within net interest result.

LBBW as sponsor, arranger, service provider or collateral trustee.

If LBBW acts solely as sponsor, arranger, service provider or collateral trustee in customer transactions, this does not result in assets requiring disclosure in the balance sheet.

LBBW as bank granting liquidity.

If LBBW makes liquidity facilities available, they must be categorized as loans and receivables (IFRS) or as receivables (HGB) upon utilization and measured at amortized cost.

Upon utilization, swaps are recognized as derivatives and classified as held for trading under IFRS and allocated to the trading book under HGB and measured at fair value through profit and loss.

LBBW as protection buyer (risk shield).

Under an agreement dated 26 June 2009, LBBW arranged risk protection with the State of Baden-Württemberg in the form of a guarantee structure with effect from 30 June 2009. GPBW GmbH & Co. KG, a guarantee entity of the State of Baden-Württemberg, originally granted LBBW a guarantee of a total of EUR 12.7 billion to hedge losses on set reference assets. The guarantee was originally made up of EUR 6.7 billion for an ABS portfolio (investor positions) of LBBW and various group companies and EUR 6.0 billion for a junior loan in the same amount provided by LBBW to Sealink Funding Ltd. (Sealink), a non-consolidated special-purpose vehicle to which LBBW transferred certain risk-bearing structured ABSs in connection with the acquisition of the former Landesbank Sachsen AG.

The guarantee amount for the ABS portfolio was already reduced to EUR 5.4 billion as at 31 December 2013 through repayments and the sale of reference assets. In an agreement dated 5 August 2014, the State of Baden-Württemberg approved the sale of LBBW's entire guaranteed ABS portfolio.

As at 31 December 2014, a guarantee of EUR 4.5 billion still existed on the loan extended to Sealink. The guarantee satisfies the requirements of a financial guarantee within the meaning of IAS 39.9 and is therefore not recognized as a derivative. The hedging effect of the guarantee is netted directly against the valuation of the loan (net method) under both IFRS and HGB.

Presentation of securitization positions in accordance with CRR.

The CRR provisions apply to the information provided in the following tables, which may differ from the presentation for securitization positions shown in other reports.

The following table shows the receivables effectively securitized by LBBW as an originator and its sponsor activities. LBBW did not transact any securitization positions without the transfer of receivables.

EUR million	Originator positions			Sponsor activities		
	Banking book					
Type of securitized receivable	Traditional	Synthetic	Total	Banking book	Trading book	Total
Receivables	8	0	8	2,558	0	2,558
from residential construction loans	0	0	0	0	0	0
from total or partial commercial real estate loans	0	0	0	0	0	0
from corporates (including SMEs)	8	0	8	1,474	0	1,474
from own and purchased lease receivables	0	0	0	831	0	831
from automotive financing (excl. leasing)	0	0	0	253	0	253
from other retail business	0	0	0	0	0	0
from CDOs and ABSs	0	0	0	0	0	0
Derivatives	0	0	0	17	0	17
Credit enhancements	0	0	0	0	0	0
Resecuritization	0	0	0	0	0	0
Total	**8**	**0**	**8**	**2,575**	**0**	**2,575**

Figure 31: Total outstanding securitized receivables and securitization transactions in which LBBW took part as an originator or sponsor (Article 449 (n) (i) CRR).

An origination position of EUR 8 million arising from an overdue position in the »Prime« transaction is still outstanding. The wind-down period for the transaction (after the original repayment period) ends in August 2015.

The following table sets out the Bank's securitization positions as a sponsor and investor. Under the underlying CRR approach, securitization positions acquired are categorized according to whether they are held in the trading or the banking book and on the basis of the type of securitized assets.

EUR million	Banking book		
Securitization positions	Exposure values under the CRS approach	Exposure values under the IRB approach	Trading book
Receivables	0	206	0
from residential construction loans	0	0	0
from total or partial commercial real estate loans	0	130	0
from corporates (including SMEs)	0	1	0
from own and purchased lease receivables	0	30	0
from automotive financing (excl. leasing)	0	37	0
from other retail business	0	0	0
from CDOs and ABSs	0	8	0
Resecuritization	0	0	0
of which guarantee portfolio	0	0	0
Credit enhancements	0	66	0
Other balance sheet items	0	0	0
Total balance sheet items	**0**	**272**	**0**
Liquidity facilities	48	2,507	0
Derivatives	5	13	0
of which resecuritization	1	0	0
Positions specifically for synthetic transactions	0	0	0
Other off-balance-sheet items	0	0	0
Total off-balance-sheet items	**54**	**2,520**	**0**
Total	**54**	**2,792**	**0**

Figure 32: Total securitization positions retained or purchased (Article 449 (n) (ii) CRR).

Under the CRS approach, exposures decreased as a result of a further run-off of credit substitute business. The drop in exposure values under the IRB approach is chiefly due to the sale of the guarantee portfolio.

As at 31 December 2014, no assets were awaiting securitization in accordance with Article 449 (n) (iii) CRR.

LBBW did not engage in any securitization activities as an originator in 2014. Accordingly, no gains or losses were realized in accordance with Article 449 n (vi) CRR or reported in accordance with Article 449 n (iv) CRR.

EUR million	Securitization positions with a risk weighting of 1250%	
Securitization positions	Banking book	Trading book
Receivables	8	0
from residential construction loans	0	0
from total or partial commercial real estate loans	0	0
from corporates (including SMEs)	0	0
from own and purchased lease receivables	0	0
from automotive financing (excl. leasing)	0	0
from other retail business	0	0
from CDOs and ABSs	8	0
Resecuritization	0	0
Credit enhancements	0	0
Other balance sheet items	0	0
Total balance sheet items	**8**	**0**
Liquidity facilities	0	0
Derivatives	0	0
Positions specifically for synthetic transactions	0	0
Other off-balance-sheet items	0	0
Total off-balance-sheet items	**0**	**0**
Total	**8**	**0**

Figure 33: Total securitization positions risk-weighted at 1250% (Article 449 (n) (v) CRR).

The following table shows the respective exposure values and capital backing for securitization positions, broken down by the approach used, by risk-weighting bands, and by banking or trading book, securitization or resecuritization.

EUR million	Banking book						Trading book					
	Securitizations		Resecuritization		Total		Securitizations		Resecuritization		Total	
Risk weight bands	Exposure value	Capital requirement	Exposure value	Capital requirement	Exposure value	Capital requirement	Exposure value	Capital requirement	Exposure value	Capital requirement	Exposure value	Capital requirement
Standard approach												
20%	0	0	0	0	0	0	0	0	0	0	0	0
40%	0	0	0	0	0	0	0	0	0	0	0	0
50%	0	0	0	0	0	0	0	0	0	0	0	0
100%	0	0	0	0	0	0	0	0	0	0	0	0
225%	0	0	0	0	0	0	0	0	0	0	0	0
350%	0	0	0	0	0	0	0	0	0	0	0	0
650%	0	0	0	0	0	0	0	0	0	0	0	0
1250%	0	0	0	0	0	0	0	0	0	0	0	0
Total	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Look-through approach												
≤ 10%	0	0	0	0	0	0	0	0	0	0	0	0
> 10% ≤ 20%	0	0	1	0	2	0	0	0	0	0	0	0
> 20% ≤ 50%	0	0	0	0	0	0	0	0	0	0	0	0
> 50% ≤ 100%	0	0	0	0	0	0	0	0	0	0	0	0
> 100% ≤ 250%	0	0	0	0	0	0	0	0	0	0	0	0
> 250% ≤ 650%	0	0	0	0	0	0	0	0	0	0	0	0
> 650% ≤ 1250%	0	0	0	0	0	0	0	0	0	0	0	0
Total	**0**	**0**	**1**	**0**	**2**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Ratings based approach												
≤ 10%	112	1	0	0	112	1	0	0	0	0	0	0
> 10% ≤ 20%	0	0	0	0	0	0	0	0	0	0	0	0
> 20% ≤ 50%	0	0	0	0	0	0	0	0	0	0	0	0
> 50% ≤ 100%	0	0	0	0	0	0	0	0	0	0	0	0
> 100% ≤ 250%	0	0	0	0	0	0	0	0	0	0	0	0
> 250% ≤ 650%	21	7	0	0	21	7	0	0	0	0	0	0
> 650% ≤ 1250%	8	4	0	0	8	4	0	0	0	0	0	0
Total	**140**	**12**	**0**	**0**	**140**	**12**	**0**	**0**	**0**	**0**	**0**	**0**
Supervisory formula approach												
≤ 10%	0	0	0	0	0	0	0	0	0	0	0	0
> 10% ≤ 20%	0	0	0	0	0	0	0	0	0	0	0	0
> 20% ≤ 50%	25	0	0	0	25	0	0	0	0	0	0	0
> 50% ≤ 100%	41	3	0	0	41	3	0	0	0	0	0	0
> 100% ≤ 250%	64	12	0	0	64	12	0	0	0	0	0	0
> 250% ≤ 650%	0	0	0	0	0	0	0	0	0	0	0	0
> 650% ≤ 1250%	0	0	0	0	0	0	0	0	0	0	0	0
Total	**130**	**15**	**0**	**0**	**130**	**15**	**0**	**0**	**0**	**0**	**0**	**0**
Internal Assessment Approach												
≤ 10%	518	4	0	0	518	4	0	0	0	0	0	0
> 10% ≤ 20%	1,209	15	0	0	1,209	15	0	0	0	0	0	0
> 20% ≤ 50%	845	24	0	0	845	24	0	0	0	0	0	0
> 50% ≤ 100%	0	0	0	0	0	0	0	0	0	0	0	0
> 100% ≤ 250%	0	0	0	0	0	0	0	0	0	0	0	0
> 250% ≤ 650%	2	1	0	0	2	1	0	0	0	0	0	0
> 650% ≤ 1250%	0	0	0	0	0	0	0	0	0	0	0	0
Capital deduction	0	0	0	0	0	0	0	0	0	0	0	0
Total	**2,575**	**44**	**0**	**0**	**2,575**	**44**	**0**	**0**	**0**	**0**	**0**	**0**
Total amount	**2,845**	**71**	**1**	**0**	**2,846**	**71**	**0**	**0**	**0**	**0**	**0**	**0**

Figure 34: Total retained or purchased securitization positions and capital requirements, broken down by approach used and by risk weight band (Article 449 (o) (i) CRR).

The drop in exposure values under the supervisory formula approach is chiefly due to the sale of the guarantee portfolio.

The final table on securitization positions shows the resecurization positions before and after collateral. All guarantors for LBBW 's resecuritization positions have top ratings without exception.

EUR million Type of collateral	Banking book	Trading book
Resecuritization positions before collateralization	5,999	0
Collateralization using guarantees	5,998	0
of which guarantors with AAA to A ratings	5,998	0
of which guarantors with ratings below A	0	0
Collateralization using other positions	0	0
Resecuritization positions after collateralization	1	0

Figure 35: Total retained or purchased resecuritization positions before and after inclusion in hedging (Article 449 (o) (ii) CRR).

The drop in the resecuritization positions secured by guarantees is chiefly due to the sale of the guarantee portfolio.

LBBW did not have any non-performing or past due loans or losses coming within Article 449 (p) CRR. Furthermore, there are no trading book risk positions that were securitized in accordance with Article 449 (q) CRR.

LBBW did not provide any implicit support (Article 248 CRR) in 2014.

11 Equity investments in the banking book. (Article 447 CRR)

LBBW makes a distinction between strategic and commercial equity investments. In line with risk and return considerations, the former serves to help the Bank implement its operating policy, thus strengthening LBBW's market position in terms of target customers and key products. By outsourcing market, staff and operating functions to subsidiaries and associated companies, this ensures ideal utilization of market potential. On the other hand, as an independent business area, commercial investment business provides a range of products/services, particularly for LBBW's small- and medium-sized customers.

The same profitability requirements generally apply to LBBW 's own strategic investment business and its commercial investment business as for its front offices.

In addition to the equity investments that are consolidated for regulatory purposes or deducted from liable equity capital (see Chapter 3 »Scope«, Figure 1), LBBW also has further equity investments in its banking book with capital backing in accordance with the IRB approach or, if grandfathering applies, the CRS approach.

For regulatory purposes, LBBW distinguishes when using the IRB approach between investment positions that are part of a portfolio managed in terms of probability of default (PD/LGD method) and those handled using the simple risk weight approach. Investment positions that were already held before 1 January 2008 are measured in line with the CRS approach under grandfathering arrangements (protection of pre-existing legal rights) (see Chapter 4 »Capital requirements«, page 18).

On the date of acquisition, equity investments which are not consolidated are measured at historical cost (including transaction costs) and subsequently remeasured at fair value in line with IFRS. For listed companies, the respective market price as at the balance sheet date is used for valuation. The fair value of non-listed companies is calculated on the basis of available multi-year forecasts using the income capitalization approach or the discounted cash flow method (DCF method) in line with the principles of Institut der Wirtschaftsprüfer (IDW). If the capitalized income method or the DCF method is not appropriate, valuations are performed using alternative procedures (for example, net asset value procedure, offering price, transaction value or appraised value, equity share). If the carrying amount of an equity investment pursuant to HGB is less than EUR 250,000, the existing valuation is retained.

Carrying amounts of investment positions in the banking book.

The following table breaks down the non-consolidated investment positions by type and tradability and shows the balance sheet value recorded in the consolidated financial statements and the fair value. For listed companies the fair value is always equivalent to the market price. If a fair value has not been calculated for internal or external purposes, then the carrying amount is used. The number and volume of equity investments which must be disclosed has increased due to the changed requirements for the treatment of deductions under CRR.

EUR million Groups of investment instruments	Carrying amount under IFRS	Fair value	Stock-market value
Equity investments in banks	**677**	**682**	**450**
of which exchange-traded	450	450	450
of which not exchange-traded	227	232	0
Equity investments in financial institutions	**302**	**323**	**0**
of which exchange-traded	0	0	0
of which not exchange-traded	302	323	0
Equity investments in other companies	**258**	**264**	**23**
of which exchange-traded	23	23	23
of which not exchange-traded	235	241	0
Affiliated companies - banks	**6**	**6**	**0**
of which exchange-traded	0	0	0
of which not exchange-traded	6	6	0
Affiliated companies - financial institutions	**37**	**37**	**0**
of which exchange-traded	0	0	0
of which not exchange-traded	37	37	0
Affiliated companies - other companies	**684**	**689**	**0**
of which exchange-traded	0	0	0
of which not exchange-traded	684	689	0
Investment funds	**16**	**16**	**0**
of which exchange-traded	0	0	0
of which not exchange-traded	16	16	0
Total	**1,980**	**2,017**	**473**

Figure 36: Carrying amounts of investment positions in the banking book (Article 447 CRR).

The following table sets out realized and unrealized gains and losses from the disposal and measurement of equity investments in line with IFRS accounting for the reporting period.

EUR million	
Realized gains (+) and losses (-) from sale/liquidation	**96**
Unrealized gains (+) and losses (-) from investment instruments	**6**
of which amounts recognized in capital under CRR:	**0**
in Tier 1 capital	0
in Tier 2 capital	0

Figure 37: Realized and unrealized gains/losses from investment positions (Article 447 CRR).

12 Market price risk. (Article 455 CRR).

LBBW defines market price risks as potential losses resulting from adverse changes in market prices or factors influencing prices. This includes share prices, interest rates, exchange rates, credit spreads and commodity prices as well as volatility or correlations as market parameters.

LBBW's market price strategy documents the strategic goals for the specific types of risk. It describes the activities exposed to market price risks and the underlying strategies for all of LBBW's relevant organizational units, branches and subsidiaries. Moreover, the market price risk strategy addresses the deliberate and controlled approach to these risks to strategically leverage the opportunities which they hold. Accordingly, it fleshes out the Bank's business strategy with regard to market price risks. It is duly specified in greater detail in organizational policies (e.g. work instructions, manuals, portfolio profiles).

LBBW's market risk positions are marked to the market on a daily basis by Group Risk Control. This is used as a basis for calculating business performance. Market price risks are quantified using a value-at-risk approach, which is supplemented by sensitivity measurements and stress tests. The risk ratios are addressed by means of corresponding portfolio limits which are used to cap the market price risks.

The integrated performance and risk management are supplemented by stressed value-at-risk calculations. This is based on an observation period which covers a significant financial stress period. This observation period is determined once every quarter for the CRR portfolio relevant for regulatory disclosures containing all the trading book positions of LBBW (Bank) excluding investment funds. In addition, the relevant observation period for stressed value-at-risk is calculated on a weekly basis. This is also calculated for the LBBW Group. This second calculation simulates the increase in risk under stress during the relevant period for the Group. This figure is also incorporated into the scenarios applying across all risk categories and is thus relevant for risk-bearing capacity.

Internal model in accordance with CRR.

LBBW calculates value-at-risk (VaR) from market price risks at a confidence level of 99% and a holding period of ten days. A 95% confidence level and a one-day holding period are applied for internal management purposes. This calculation is based on a procedure involving a Monte Carlo simulation. In most cases, the simulation enables LBBW not only to simply approximate market-induced value fluctuations but to measure them fully, even for complex transactions. Historical time series for the preceding 250 days are weighted equally in covariance estimates. The above-mentioned stressed value-at-risk is also included in the calculation of regulatory capital cover. LBBW 's market price risk model is also uniformly used for all sub-portfolios and for the Group's subsidiaries that are integrated in Group-wide standardized management based on the value-at-risk risk indicator.

Trading portfolios and the strategic position of the banking book can be affected by potentially adverse developments in market interest rates. In addition to parallel shifts and turns in the interest curve, basic risks arising from movements in the relevant fixed-income markets relative to each other are also included in risk calculations. Basic risks depend very heavily on the correlation of the underlying interest curves.

Credit spread risks from securities are measured on the basis of the general and specific issuer risk. For this purpose, trading book and banking book transactions that are sensitive to creditworthiness are mapped onto rating- and sector-dependent interest curves. This is carried out for all transactions executed through the trading systems (in particular fixed-income securities). In addition, the specific issuer risk for securities is calculated by reference to the spread (and spread volatility) of individual counterparties.

Reference borrowers are allocated to CDS sector curves for credit spread risks from credit derivatives. The allocated CDS sector curves are deflected for the general interest rate risk and the residual maturities for the specific risk.

Credit spread risks account for a substantial share of LBBW's market price risk. Equity risks, along with currency and commodity risks, are less significant for LBBW than interest rate and spread risks. Commodity risks also include risks from precious metals and notes and coins portfolios, which LBBW holds to only a limited degree.

LBBW's internal risk model has been approved by the competent authority for general interest-rate and equity risks including option price risks in the form of volatility risks. The aforementioned CRR portfolio forms the basis for calculating capital backing requirements.

Backtesting and validation.

The VaR calculated in the risk model constitutes a statistical forecast of the portfolio losses from market price risks expected over the individual time periods. In order to verify the suitability of the model, it is necessary to test the quality of forecasts. This is done in the form of a regular validation process. Various validation and analysis methods are used for this purpose. The first step is to perform backtesting. In concrete terms, this process involves counting the number of times VaR is exceeded by actual portfolio value changes as the result of changes in market data (so-called outliers).

The CRR portfolio, which comprises the trading portfolios for which capital adequacy for general equity and interest rate risks is measured using the internal risk model, showed one outlier. No additional equity is required for model outliers for regulatory purposes as an impact on the weighting factor of the internal model only materializes if five or more outliers occur.

In addition to backtesting, other quantitative validation methods are applied and a qualitative assessment performed of the risk model. This involves a consideration of the model design particularly to identify and model risks. Such model risks are investigated by means of stochastic risk modeling, for example. The forecast quality of a VaR model also depends on the quality of measurement methods in place within the risk model. Market data ultimately constitutes a key factor in the success of VaR forecasts. This is entered into the measurement models and thus forms a key factor in determining the quality of the simulated portfolio measurements. In addition, future risk response (volatility and correlations) for the individual market factors is derived from the price histories for these factors.

The model risks are assessed for their materiality and, depending on what action is required, included in the release plan for the risk model. Model changes are carried out according to the model change policy and communicated to the competent authorities.

Stress tests.

Stress testing is used to examine how the value of the portfolio changes under extreme market conditions. LBBW's risk system includes historical and synthetic (self-defined) scenarios. Synthetic scenarios are based mostly on selected market factor groups such as individual and combined interest shifts. Historical scenarios are generated from the data analyses of market shocks. All scenario serve the purpose of mapping extreme events in the financial markets on a forward-looking basis in cases in which these are not specifically included in the VaR as historical input. These scenarios are applied to the portfolio on a weekly basis together with the defined market data changes and any changes in the present values reported as stress test results.

At the moment scenarios no. 8 (inverted increase in interest curve) and no. 14 (extreme increase in credit spreads) in the Bundesbank's annual stress test survey have the greatest relevance for LBBW's trading book.

The shifted market factors for the most significant stress scenarios for LBBW's CRR portfolio as at 31 December 2014 are shown in the following table.

Bundesbank scenario no. 8	
Inverted increase in yield curve	≤ 3M/≤ 5Y/> 5Y → + 380 BP/+ 290 BP/+ 200 BP
Bundesbank scenario no. 14	
Extreme increase in credit spreads (in BP)	AAA + 30/AA + 50/A + 100/BBB + 200/BB + 500/B + 1000/CCC + 1500

Figure 38: Stress test scenarios (Article 455 (a) (iii) CRR).

Allocation of positions to the trading book.

Under Article 4 (1) (85) and (86) CRR, the decisive criterion for allocating financial instruments and commodities to the trading book is the trading intent to generate income from own trading, i.e. to leverage differences between buying and selling prices or from other price, value or interest rate variations in the short term. The partial or full closure of a market risk position by means of a counter-transaction (for the purpose of generating a short-term different in present value) is equivalent to a resale. Short term is defined as a period of up to one year.

The internal criteria of Landesbank Baden-Württemberg (including foreign branches) is the central document for the allocation of the aforementioned positions for the purpose of delineating the trading book in accordance with Articles 102 et seq. CRR). These criteria describe the general allocation criterion as well as specific details with respect to the business portfolio of LBBW (Bank), the rules for shifts between the banking book and the trading book as well as the technical methods for determining the positions.

Correct allocation is regularly checked by means of a review of the actual holding period of the financial instruments and commodities as well as through procedures for tracking the book allocations of positions in regulatory reporting and in risk control in which VaR is calculated on the basis of the internal risk model.

Measurement of trading book positions.

LBBW measures its trading book positions at market prices which are obtained on a daily basis from sources independent of trading and are especially quality-assured or which are supplied by the trading units and examined by Risk Control. Risk Control also applies consistent standards and processes for performing an independent price verification (IPV) process, in which trading prices are monitored on an independent basis.

The providers of market data used include Reuters, Bloomberg and MarkIT. If the data is not directly observable in the market, LBBW uses measurement models which incorporate parameters derived from market prices. In addition, model valuation adjustments are made in the light of the principle of caution.

Adjustments in accordance with Article 105 CRR (prudent valuation).

In addition, LBBW makes deductions from its regulatory own funds to allow for model risks, settlement costs, market price uncertainty, unearned credit risk premiums, operational risks, less liquid and concentration positions as well as administration expenses, cash investment and borrowing costs. These adjustments are calculated for all positions measured at fair value and deducted from Common Equity Tier 1. The prudent valuations are regularly reviewed in a procedure documented in writing in LBBW's rules.

Further disclosures on the use of non-observable parameters can be found in the annual report.

Capital requirements for market risk positions.

The following table shows the capital requirements for market price risks broken down by types of risk. This shows that the internal risk model for regulatory purposes is only applied to the general interest-rate and equity risk including option price risks. In contrast to the following illustrations, the »internal model« column shows the average for the past 60 days multiplied by the stipulated factor of 3.4 (Article 364 (1) CRR) rather than the year-end figure.

EUR million	Capital requirement	
	Standard method	Internal model
Interest rate risk	187	428
of which general price risk for net interest position	0	428
of which special price risk for net interest position	185	0
of which special price risk for securitization positions in trading book	0	0
of which special price risk in correlation trading portfolio	2	0
Equity position risk	37	37
of which general equity position risk	0	37
of which special equity position risk	37	0
Currency risk	32	0
Risks from commodities positions	3	0
Total	**260**	**465**

Figure 39: Capital requirements for market risk positions (Article 455 (e) CRR).

The following chart shows a comparison between the potential risk amounts calculated daily at the close of business with a holding period of one working day and the changes in value of the CRR portfolio calculated at the close of business.

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

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

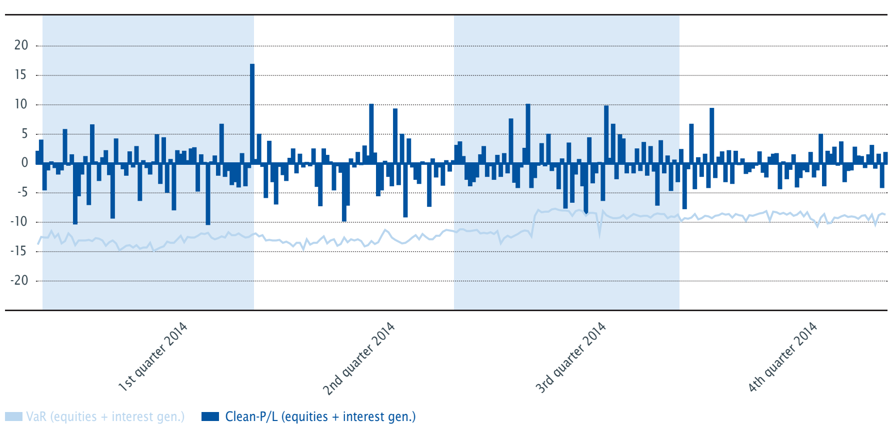

Figure 40: Value-at-risk of the CRR portfolio under the Internal Model Method and hypothetical buy-and-hold losses (Article 455 (g) CRR).

The following table sets out the normal and the stress VaR for the trading book (99% / ten days) by risk type at the Bank level plus the specific interest-rate and equity position risk as well as the currency and commodity risk.

EUR million	Normal VaR in the reporting period				Stress VaR in the reporting period			
Trading book portfolio according to internal model	Normal VaR at the end of the reporting period	Highest value	Lowest value	Average for reporting period	Stress VaR at the end of the reporting period	Highest value	Lowest value	Average for reporting period
Interest rate risks	26	46	23	33	123	131	95	110
Equity risks	2	5	2	3	4	19	3	7
Currency and commodity risks	3	7	2	4	7	17	4	8
Total trading book	26	47	22	34	120	136	91	111

Figure 41: Overview of VaR for the trading book portfolios (Article 455 (d) (i) and (ii) CRR).

There has been a substantial reduction in VaR for the trading book compared with the previous year. The decline is primarily due to the introduction of regulatory model adjustments in the risk model.

13 Interest risk in the banking book. (Article 448 CRR)

As a matter of principle, all new customer exposures are funded on a matching maturities basis with minimum delay. The Group Board of Managing Directors accepts further strategic positions in the light of current market conditions on the basis of this business policy. These items include risks in the form of cash flow incongruities (structural risks), risks from leveraging interest rate gaps between individual market segments (basic risk) and options risks from financial transactions entered into.

Quantification.

All relevant interest-bearing and/or interest-sensitive positions in the banking book are included in measurements in accordance with LBBW's own procedures for measuring interest rate risks. All those related to individual transactions and/or portfolios are measured daily, with margin or retail-oriented business entered in calculations in the form of aggregated items when the portfolio is updated monthly.

For variable-rate transactions with private and corporate customers (particularly deposits), records made on grounds of conditions or conduct are taken into account by using the deposit base theory in conjunction with the concept of moving averages.

Interest rate risks are measured daily using a Monte Carlo simulation. Here, changes in the value of the banking book as a whole or even for individual portfolios are specified for each currency using randomly selected interest rate scenarios. Together with the confidence level, the distribution arising from this serves to determine the VaR (confidence level of 95 % and holding period of one trading day). The VaR identified on this basis expresses the potential loss which with 95 % probability will not be exceeded within a trading day. The calculated risks of the banking book are taken into account in risk-bearing capacity in the context of the relevant parametrization.

In addition to daily reporting, further stress and worst-case scenarios are calculated on a weekly basis and made available for further analysis. All scenarios help to show the future effects of extreme events on the financial markets which are not sufficiently tracked in normal VaR in the applicable book. Extreme historical market fluctuations and self-defined scenarios are used in this respect.

Interest rate risks in the banking book.

Under regulatory requirements, the effect of an interest-rate shock on the economic value has to be disclosed in the banking book. This involves a parallel shift in the yield curve by +200 basis points (rising interest) upwards and by – 200 basis points (falling interest) downwards. The interest rate of 0% de facto constitutes a floor. Due to the further fall in the interest rate level compared with the previous year, this floor has an increased effect, resulting in a further increase in the imbalance between a positive and a negative interest shock. The imbalance is strengthened by the reinvestment of maturing securities due to longer residual terms and the accumulation of positions.

The following table shows the changes in net present value, broken down into the main currencies.

EUR million	Change in present value due to interest rate shock	
Currency	Positive interest rate shock + 200 basis points	Negative interest rate shock – 200 basis points
CHF	– 2	0
EUR	– 1,002	175
GBP	– 1	0
JPY	0	0
USD	– 105	108
Other	0	0
Total	**– 1,111**	**66**

Figure 42: Interest rate risks in the banking book (Article 448 (b) CRR).

14 Operational risk. (Article 446 CRR)

In accordance with regulatory requirements, operational risks are defined 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. Strategic and reputation risks are not included in operational risks.

LBBW has a comprehensive system for managing and monitoring operational risks. An independent, centralized organizational unit within Group Risk Control is tasked with developing methods and tools. In accordance with the dual strategy, the decentralized management of operational risks is the responsibility of the specialized divisions.

The central parameters for handling operational risks are enshrined in the risk strategy and policy for operational risks as well as in the work rules.

One of the main goals of management and control activities is to identify operational risks at an early stage and to reduce or avoid the resulting losses by implementing the appropriate measures. Where possible, risk is to be minimized. The management of measures, the internal control system and an open risk culture play an important role in the coordination of operational risks.

Internal and external loss event data, the risk inventory (self-assessment and scenario analysis) and risk indicators are used to identify the risk situation. In addition, data and experience are regularly shared with various interfaces across the Bank.

The overall exposure to operational risks is aggregated within the risk-bearing capacity concept on the basis of operational value-at-risk (OpVaR) in the LBBW Group's limit system.

The standard approach under CRR is applied to determine capital requirements for regulatory purposes. The capital required stands at EUR 405 million as at 31 December 2014.

Further information on operational risks can be found in the report on risks and opportunities.

15 Asset encumbrance. (Article 443 CRR)

Asset encumbrance as defined in Guideline 2014/03[1] issued by the European Banking Authority (EBA) deals with on and off-balance-sheet assets. Under the EBA definition, an asset is encumbered if it is used as collateral or is the subject of any form of agreement on the provision of collateral, the securing or grant of loan collateral for a transaction from which it cannot be withdrawn without prior approval.[2] The value of encumbered assets is therefore fundamentally influenced by a bank's business model.

EUR million	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Assets of the reporting bank	**105,561**		**159,303**	
Equity instruments	48	48	974	1,064
Bonds	20,617	21,219	28,702	28,159
Other assets	26,130		13,795[1]	

1) This item primarily comprises exchange-traded derivatives as well as controlling equity investments, property, plant and equipment and cash and cash equivalents.

Figure 43: Assets.

A large part of the encumbered assets result from LBBW's function as the clearing bank for the savings banks. This particularly causes encumbered assets allocated to the derivatives, transit loans and also repo transactions category to rise. LBBW has encumbered (on-balance-sheet) assets of EUR 105.6 billion and unencumbered assets of EUR 159.3 billion.[3] The encumbered on-balance-sheet assets primarily relate to the following positions:

- Covered bonds: LBBW issues covered bond in accordance with German covered bond legislation. Accordingly, 23% of the encumbered assets are for covered bonds. The figures include the statutory and rating-related surplus cover.
- Repos: LBBW uses bilateral and triparty repo markets such as Eurex GC Pooling and Fixed Income Clearing Corporation (FICC) for funding purposes. A total of just under 6% of the encumbered on-balance-sheet assets are used for repos. LBBW transacts repos under national and international repo contracts (global master repurchase agreements and global master securities lending agreements).
- Derivatives: 35% of the encumbered assets are related to OTC derivatives. Positive market values under derivatives particularly result in an encumbrance as they are reported in gross asset encumbrance (without netting of the corresponding liability position). LBBW transacts derivatives under national and international agreements (German global contract and International Swaps and Derivatives Association) and with corresponding credit support annexes.
- Transit loans: LBBW passes on loans provided by development banks to the savings banks. These transit loans are classed as encumbered assets. Encumbered transit loans account for 20% of the encumbered assets.

1) Guideline on disclosure of encumbered and unencumbered assets.
2) See Commission Implementing Regulation (EU) 2015/79 of 18 December 2014, Chapter 1.7 for a definition.
3) This (first-time) disclosure of encumbered assets is based on the figures as at 31 December 2014.

Virtually all encumbrances are driven by LBBW itself. There are only negligible encumbrances within the LBBW Group.

EUR million	Fair value of encumbered collateral received or own bonds issued	Fair value of collateral received or own bonds issued suitable for encumbrance
Collateral received by the reporting bank	**20,529**	**21,524**
Equity instruments	1,054	860
Bonds	19,475	20,664
Other assets	0	0
Own bonds (excluding own covered bonds or ABSs)	**1,803**	**3,109**

Figure 44: Collateral received.

EUR million	Cover for liabilities, contingent liabilities or lent securities	Assets, collateral received and other own bonds issued as encumbered covered bonds and ABSs
Carrying amount of selected liabilities	**100,728**	**107,628**

Figure 45: Encumbered assets/collateral received and liabilities secured with them.

LBBW has received collateral worth a total of EUR 42 billion; of this, EUR 20.5 billion has been reused. The reused collateral is particularly related to repo and securities lending business.

Abbreviations.

ABCP	Asset backed commercial paper
ABS	Asset backed security
AT 1	Additional Tier 1 Capital
BaFin	Bundesanstalt für Finanzdienstleistungsaufsicht
BelWertV	Beleihungswertverordnung
BSA	Credit support annex
CCF	Credit conversion factor
CCP	Central counterparty
CDO	Collateralized debt obligation
CDS	Credit default swap
CET 1	Common Equity Tier 1
CLN	Credit linked note
CLO	Credit loan obligation
CMBS	Commercial mortgage backed security
CP	Commercial paper
CRD	Capital Requirements Directive
CRR	Capital Requirements Regulation
CRSA	Credit risk standard approach
CSA	Credit support annex
DCF method	Discounted cash flow method
DRV	Deutscher Rahmenvertrag (German global agreement)
EAD	Exposure at default
EBA	European Banking Authority
EL	Expected loss
FICC	Fixed Income Clearing Corporation
FINREP	Financial Reporting
GMRA	Global master repurchase agreement
GMSLA	Global master securities lending agreement
HGB	Handelsgesetzbuch (German Commercial Code)
IAA	Internal Assessment Approach
IFRS	International Financial Reporting Standards
IMM	Internal Model Method
IPV	Independent price verification
IRBA	Internal Ratings Based Approach
ISDA	International Swaps and Derivatives Association
LGD	Loss given default
OTC	Over the counter
PD	Probability of default
RCP	Risk classification procedure
RMBS	Residential mortgage backed security
SIC	Standing Interpretations Committee
SME	Small and medium sized enterprises
SPV	Special purpose vehicle
T 2	Tier 2 capital
UCI	Undertakings for collective investment
VaR	Value-at-risk

Index of tables.

Landesbank Baden-Württemberg
Headquarters

Stuttgart
70144 Stuttgart, Germany
Am Hauptbahnhof 2
70173 Stuttgart, Germany
Phone +49 (0) 711 127-0
Fax +49 (0) 711 127-43544
www.LBBW.de
kontakt@LBBW.de

Karlsruhe
76245 Karlsruhe, Germany
Ludwig-Erhard-Allee 4
76131 Karlsruhe, Germany
Phone +49 (0) 721 142-0
Fax +49 (0) 721 142-23012
www.LBBW.de
kontakt@LBBW.de

Mannheim
P.O. Box 10 03 52
68003 Mannheim, Germany
Augustaanlage 33
68165 Mannheim, Germany
Phone +49 (0) 621 428-0
Fax +49 (0) 621 428-72591
www.LBBW.de
kontakt@LBBW.de

Mainz
55098 Mainz, Germany
Grosse Bleiche 54–56
55116 Mainz, Germany
Phone +49 (0) 6131 64-37800
Fax +49 (0) 6131 64-35701
www.LBBW.de
kontakt@LBBW.de

Landesbank Baden-Württemberg

LB≡BW