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

Grown stability.
Half-yearly disclosure report 2017.

In accordance with CRR/CRD IV.

Landesbank Baden-Württemberg

1 Fundamentals.

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

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

In its capacity as the parent company, LBBW complies with its duty to prepare a Pillar 3 report in aggregated form at the group level. The figures reported in this report are based on the basis of consolidation in accordance with regulatory law. The figures are calculated in accordance with the International Financial Reporting Standards (IFRS).

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

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

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

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

Structure of own funds.

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

EUR million Capital components	30 June 2017	31 March 2017
Common Equity Tier 1 (CET1) before regulatory adjustments	13 010	13 210
Regulatory adjustments to Common Equity Tier 1 (CET1) as a whole	– 909	– 1 218
Common Equity Tier 1 (CET1)	**12 101**	**11 992**
Additional Tier 1 (AT1) before regulatory adjustments	1 010	1 010
Regulatory adjustments to Additional Tier 1 (AT1) as a whole	– 68	– 139
Additional Tier 1 (AT1)	**941**	**871**
Tier 1 (T1 = CET1 + AT1)	**13 042**	**12 863**
Tier 2 (T2) before regulatory adjustments	4 296	3 994
Regulatory adjustments to Tier 2 (T2) as a whole	– 34	– 36
Tier 2 (T2) as a whole	**4 262**	**3 959**
Total capital (TC = T1 + T2)	**17 304**	**16 822**
Total risk-weighted assets	**75 931**	**76 843**
Capital ratios and buffers		
CET1 capital ratio (expressed as a percentage of the total risk exposure amount)	**15.9**	**15.6**
T1 capital ratio (expressed as a percentage of the total risk exposure amount)	**17.2**	**16.7**
Total capital ratio (expressed as a percentage of the total risk exposure amount)	**22.8**	**21.9**

Figure 1: Type and amounts of capital instruments.

Change in own funds compared to 31 March 2017.

The LBBW Group's common equity tier 1 capital increased slightly compared to the end of the previous quarter. This mainly resulted from the reversal of the deductible item »Goodwill«. Additional Tier I capital (AT1) increased due to the changes in deductibles and the way in which they are included under the CRR transitional rules. Supplementary capital (T2) was strengthened in the second quarter of 2017 through the new issue of two subordinated bonds. SGD 300 million and AUD 300 million were issued. The amortization of Tier 2 capital components on the basis of the number of days that have passed had a slight opposite effect.

Accordingly, the improvement in capital backing and slightly lower total amount of risk had a positive effect on the capital ratios.

Own funds requirements.

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

EUR million	Risk-weighted exposure value 30 June 2017	Own funds requirements 30 June 2017	Risk-weighted exposure value 31 March 2017	Own funds requirements 31 March 2017
1 Credit risks				
1.1 Credit risk standard approach				
Central governments	0	0	0	0
Regional governments and local authorities	0	0	0	0
Other public-sector agencies	44	4	44	4
Multilateral development banks	0	0	0	0
International organizations	0	0	0	0
Banks	1 001	80	979	78
Corporates	5 328	426	4 767	381
Retail business	3 512	281	3 587	287
Items secured by real estate	1 912	153	1 968	157
Past due items	204	16	215	17
Items exposed to particularly high risk	0	0	0	0
Covered bonds issued by banks	0	0	0	0
Risk exposure to banks and corporates with a short-term credit rating	0	0	0	0
Undertakings for collective investment (UCI)	0	0	0	0
Other items	85	7	86	7
Total credit risk standard approach	**12 086**	**967**	**11 647**	**932**
1.2 IRB approaches				
Central governments	2 607	209	3 317	265
Banks	6 717	537	6 077	486
Corporates - SMEs	2 337	187	2 498	200
Corporates - specialized lending exposures	7 971	638	8 461	677
Corporates - other	24 396	1 952	24 605	1 968
Retail business - of which secured with real estate liens, SMEs	0	0	0	0
Retail business - of which secured with real estate liens, non-SMEs	0	0	0	0
Retail business - of which qualified, revolving	0	0	0	0
Retail business - of which other, SMEs	0	0	0	0
Retail business - of which other, non-SMEs	0	0	0	0
Other assets not relating to credit	2 596	208	2 290	183
Total IRB approaches	**46 623**	**3 730**	**47 249**	**3 780**
1.3 Securitization positions				
Securitization positions under CRS approach	8	1	9	1
of which resecuritizations	1	0	0	0
Securitization positions under IRB approach	762	61	758	61
of which resecuritizations	0	0	0	0
Total securitization positions	**770**	**62**	**767**	**61**
1.4 Equity investments				
Equity investments under IRB approach	2 560	205	2 742	219
of which Internal Model Method	0	0	0	0
of which PD/LGD approach	34	3	92	7
of which simple risk weight approach	1 555	124	1 697	136
of which exchange-traded equity investments	49	4	52	4
of which not exchange-traded but forming part of a sufficiently diversified equity investment portfolio	1 494	120	1 632	131
of which other equity investments	12	1	13	1
Equity investments under CRSA	989	79	987	79
of which investments held with method continuation/grandfathering	989	79	987	79
Total equity investments	**3 548**	**284**	**3 728**	**298**
1.5 Risk position amount for contributions to a default fund for a CCP	**191**	**15**	**196**	**16**
Total credit risks	**63 218**	**5 057**	**63 587**	**5 087**

EUR million	Risk-weighted exposure value 30 June 2017	Own funds requirements 30 June 2017	Risk-weighted exposure value 31 March 2017	Own funds requirements 31 March 2017
2. Settlement/delivery risks				
Settlement/delivery risks in the banking book	0	0	0	0
Settlement/delivery risks in the trading book	0	0	0	0
Total settlement/delivery risks	**0**	**0**	**0**	**0**
3 Market price risks				
Standard approach	2 352	188	2 439	195
of which interest rate risks	1 298	104	1 360	109
of which general and special price risk for net interest position	1 298	104	1 360	109
of which securitization positions with special price risk in trading book	0	0	0	0
of which special price risk in correlation trading portfolio	0	0	0	0
of which particular approach for exposure risks in UCI	404	32	306	24
of which equity risks	85	7	108	9
of which currency risks	520	42	632	51
of which risks from commodities positions	45	4	33	3
Internal Model Method	4 002	320	4 440	355
Total market price risks	**6 354**	**508**	**6 879**	**550**
4 Operational risks				
Basic indicator approach	0	0	0	0
Standard approach	4 514	361	4 514	361
Advanced measurement approach	0	0	0	0
Total operational risks	**4 514**	**361**	**4 514**	**361**
5 Total risk exposure for credit valuation adjustments	**1 845**	**148**	**1 863**	**149**
6 Total risk exposure resulting from large exposure in the trading book	**0**	**0**	**0**	**0**
7 Other	**0**	**0**	**0**	**0**
Total	**75 931**	**6 074**	**76 843**	**6 147**

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

Change in own funds requirements compared to 31 March 2017.

There was a slight decline in own funds requirements over the previous quarter. This was as a result of the decline in the central governments and specialized lending exposures classes covered by the IRB approach as a result of repayments, rating improvements and an improved method for mapping risks from equity positions in the internal model. There was an offsetting effect due to new business with banks included in the IRB approach and companies shown using the CRS approach.

3 Counterparty default 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. As of this date, regulatory capital backing is based on the following rating systems in line with the IRB approach:

- Banks
- Country and transfer risks
- Insurance companies
- Project finance
- Corporates
- International real estate finance
- Sparkassen-ImmobiliengeschäftsRating
- 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.

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

The following table shows the exposure classes covered by the IRB approach: central governments, banks, corporates including the specialized lending exposures and SMEs sub-classes in addition to equity investments. The following parameters are applied:

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

Change in exposure values under the IRB approach compared to 31 December 2016.

Compared to the comparison date (31 December 2016), there was primarily an increase in exposure values in PD class 1 [(AAAA) – (A–)] in the central governments exposure class. This mainly results from increased business with central banks, which must be backed with a zero risk weighting, and from a decline in other business shown in this class that has a risk weighting. This is leading to a reduction in own funds requirements. The increase in the exposure values and own funds requirements for the exposure classes banks and companies in the same PD class is primarily due to new business.

Reporting date: 30 June 2017 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 class 1 [(AAAA) – (A–)]/0.00 % to <= 0.10 %					
Central governments	66 034	632	0.00	1.14	755
Banks	31 854	289	0.06	11.58	3 690
Corporates	38 798	5 802	0.06	18.07	7 012
of which SMEs	1 882	130	0.05	13.20	248
of which specialized lending exposures	6 545	67	0.06	20.99	1 374
of which purchased receivables	0	0	0.00	0.00	0
Equity investments	4	0	0.09	70.17	3
Total	**136 691**	**6 723**			**11 460**
Total on 31 December 2016	**112 754**	**4 934**			**9 667**
PD classes 2 – 5/0.11 % to <= 0.47 %					
Central governments	16	0	0.17	16.35	3
Banks	8 187	198	0.18	26.63	2 180
Corporates	35 531	6 525	0.21	42.32	15 035
of which SMEs	1 869	163	0.27	39.02	729
of which specialized lending exposures	6 840	506	0.20	44.44	3 040
of which purchased receivables	0	0	0.00	0.00	0
Equity investments	28	0	0.23	105.87	30
Total	**43 763**	**6 724**			**17 248**
Total on 31 December 2016	**44 631**	**7 158**			**17 637**
PD classes 6 – 10/0.48 % to <= 3.62 %					
Central governments	173	0	1.07	98.78	171
Banks	617	1	1.19	101.46	626
Corporates	10 663	1 245	1.09	88.76	9 465
of which SMEs	1 387	102	1.19	76.60	1 063
of which specialized lending exposures	2 514	186	0.97	88.16	2 216
of which purchased receivables	0	0	0.00	0.00	0
Equity investments	1	0	0.59	162.05	1
Total	**11 454**	**1 246**			**10 263**
Total on 31 December 2016	**12 165**	**1 348**			**10 950**
PD classes 11 – 15/3.63 % to <= 99.99 %					
Central governments	2	0	16.66	240.59	4
Banks	66	0	19.82	74.02	49
Corporates	858	102	9.77	181.76	1 559
of which SMEs	137	10	8.78	141.87	194
of which specialized lending exposures	346	20	12.94	209.39	725
of which purchased receivables	0	0	0.00	0.00	0
Equity investments	0	0	6.67	448.76	0
Total	**925**	**102**			**1 612**
Total on 31 December 2016	**949**	**109**			**1 739**
PD classes 16 – 18/100 % (default)					
Central governments	0	0	100.00	-	0
Banks	1	0	100.00	-	0
Corporates	1 086	29	100.00	-	0
of which SMEs	132	1	100.00	-	0
of which specialized lending exposures	143	5	100.00	-	0
of which purchased receivables	0	0	0.00	-	0
Equity investments	0	0	100.00	-	0
Total	**1 088**	**29**			**0**
Total on 31 December 2016	**1 389**	**38**			**0**

Reporting date: 30 June 2017 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	66 226	632	0.01	1.41	932
Banks	40 724	487	0.14	16.07	6 545
Corporates	86 937	13 703	1.59	38.04	33 071
of which SMEs	5 408	406	3.08	41.33	2 235
of which specialized lending exposures	16 388	784	1.40	44.88	7 355
of which purchased receivables	0	0	0.00	0.00	0
Equity investments	34	0	0.22	102.20	34
Total	**193 920**	**14 823**			**40 583**
Total on 31 December 2016	**171 889**	**13 588**			**39 993**

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

4 Leverage ratio. (Article 451 CRR)

Disclosure of the leverage ratio as at 30 June 2017 is based on the stipulations of the Commission Delegated Regulation (EU) No. 2015/62 of 10 October 2014 amending Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to the leverage ratio.

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

Figure 4: Disclosure of qualitative elements (LRQua).

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

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

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

The leverage ratio on the basis of the CRR transitional provisions (phase-in) was 4.7% as at 30 June 2017 (as at 31 March 2017: 4.4%). The higher debt ratio was caused by the increase in leverage ratio exposure (phase-in) from EUR 291 417 million as at 31 March 2017 to EUR 277 351 million as at 30 June 2017 (– EUR 14 066 million). The decline in the leverage ratio exposure is due in particular to the reduction in and other on-balance-sheet transactions with central governments and central banks and in securities financing transactions.

EUR million		Figures to be used
1	Total assets according to the published accounts	255 050
2	Adjustment for corporates that are consolidated for accounting purposes but do not form part of the regulatory basis of consolidation.	– 1 845
3	(Adjustment for fiduciary assets recognized in the balance sheet according to the applicable accounting provisions but which under Article 429 (13) of Regulation (EU) No. 575/2013 are excluded from the leverage ratio total exposure measure)	
4	Adjustments for derivative financial instruments	– 6 108
5	Adjustments for securities financing transactions (SFTs)	8 070
6	Adjustment for off-balance-sheet items (i.e. conversion of off-balance-sheet exposures into credit equivalent amounts)	17 537
EU-6a	(Adjustments for intra-group risk exposures which are excluded from the leverage ratio total exposure measure in accordance with Article 429 (7) of Regulation (EU) No. 575/2013)	
EU-6b	(Adjustments for risk exposures which are excluded from the leverage ratio total exposure measure in accordance with Article 429 (14) of Regulation (EU) No. 575/2013)	
7	Other adjustments	4 647
8	**Leverage ratio total exposure measure**	**277 351**

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

EUR million		Risk exposure values of the CRR leverage ratio
On-balance-sheet risk exposures (excluding derivatives and SFTs)		
1	On-balance-sheet items (excluding derivatives, SFTs and fiduciary assets but including collateral)	214 482
2	(Asset amounts deducted in the calculation of Tier 1 capital)	– 566
3	**Total of on-balance-sheet risk exposures (excluding derivatives, SFTs and fiduciary assets) (total of rows 1 and 2)**	**213 916**
Risk exposures from derivatives		
4	Replacement value of all derivatives transactions (i.e. excluding eligible additional contributions received in cash)	7 347
5	Premiums for the potential future replacement value with regard to all derivatives transactions (mark-to-market measurement method)	9 749
EU-5a	Risk exposure valued in accordance with the Original Exposure Method	
6	Addition of amount of collateral furnished in connection with derivatives that is deducted from total assets according to the applicable accounting standard	
7	(Deductions from receivables for additional contributions in cash for derivatives transactions)	– 5 957
8	(Excluded CCP portion of customer-cleared trading positions)	– 1 115
9	Adjusted effective nominal value of written credit derivatives	8 048
10	(Netting of adjusted effective nominal values and deduction of premiums for written credit derivatives)	– 4 548
11	**Total risk exposures from derivatives (total of rows 4 to 10)**	**13 524**
Risk exposures from securities financing transactions (SFTs)		
12	Gross assets from SFTs (without recognition of netting) after adjustment for transactions booked as sales	28 298
13	(Netted amounts of cash liabilities and receivables from gross assets from SFTs)	– 3 430
14	Counterparty default risk exposures for SFT assets	7 506
EU-14a	Divergent treatment of SFTs: counterparty default risk exposure in accordance with Article 429b (4) and Article 222 of Regulation (EU). No. 575/2013	
15	Risk exposures from transactions realized as an agent	
EU-15a	(Excluded CCP portion of customer-cleared SFT risk exposures)	
16	**Total of risk exposures from securities financing transactions (total of rows 12 to 15)**	**32 375**
Other off-balance-sheet risk exposures		
17	Off-balance-sheet risk exposures at their gross nominal value	50 437
18	(Adjustments for the conversion into credit equivalent amounts)	– 32 900
19	**Other off-balance-sheet risk exposures (total of rows 17 and 18)**	**17 537**
(On-balance-sheet and off-balance-sheet) risk exposures which may be excluded pursuant to Article 429 (14) of Regulation (EU) No. 575/2013		
EU-19a	(On-balance-sheet and off-balance-sheet) intra-group risk exposures (individual basis) which are excluded pursuant to Article 429 (7) of Regulation (EU) No. 575/2013	
EU-19b	(On-balance-sheet and off-balance-sheet) risk exposures which may be excluded pursuant to Article 429 (14) of Regulation (EU) No. 575/2013	
Equity and leverage ratio total exposure measure		
20	Tier 1 capital	13 042
21	Leverage ratio total exposure measure (total of rows 3, 11, 16, 19, EU-19a and EU-19b)	277 351
Leverage ratio		
22	Leverage ratio	4.7 %
Transitional provision chosen and amount of derecognized fiduciary items		
EU-23	Transitional provision chosen for the definition of the capital measure	Phase-in
EU-24	Amount of fiduciary assets removed from the balance sheet in accordance with Article 429 (11) of Regulation (EU) No. 575/2013	-

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

EUR million		Risk exposure values of the CRR leverage ratio
EU-1	**Total of on-balance-sheet risk exposures (excluding derivatives, SFTs and excluded risk exposures), of which:**	**208 239**
EU-2	**Risk exposures in the trading book**	**15 490**
EU-3	**Risk exposures in the banking book, of which**	**192 749**
EU-4	Covered bonds	2 683
EU-5	Risk exposures treated as risk exposures towards sovereigns	57 562
EU-6	Risk exposures to regional authorities, multilateral development banks, international organizations and public-sector bodies which are not treated as risk exposures towards sovereigns	436
EU-7	Banks	39 521
EU-8	Collateralized by real estate liens	18 171
EU-9	Risk exposures from retail business	5 240
EU-10	Corporates	59 727
EU-11	Defaulted exposures	847
EU-12	Other risk exposures (e.g. equity investments, securitizations and other assets that are not loan commitments)	8 562

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

Abbreviations.

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

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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 100352
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