LBBW

Breaking new ground

Half-yearly financial report 2020

Key figures of the LBBW Group

Income Statement (EUR million)	1 Jan. – 30 June 2020	1 Jan. – 30 June 2019[1]
Net interest income	872	811
Net fee and commission income	274	279
Net gains/losses on remeasurement and disposal	– 182	154
of which allowances for losses on loans and securities	– 281	– 63
Other operating income/expenses	90	52
Total operating income/expenses	*1,055*	*1,296*
Administrative expenses	– 834	– 864
Expenses for bank levy and deposit guarantee system	– 118	– 102
Net income/expenses from restructuring	1	0
Consolidated profit/loss before tax	*103*	*329*
Income taxes	– 51	– 103
Net consolidated profit/loss	*52*	*226*
Key figures in %	**1 Jan. – 30 June 2020**	**1 Jan. – 30 June 2019[1]**
Return on equity (RoE)	1.5	5.1
Cost/income ratio (CIR)	71.2	71.2
Balance sheet figures (EUR billion)	**30 June 2020**	**31 Dec. 2019[1]**
Total assets	289.7	256.6
Equity	13.9	13.9
Ratios in accordance with CRR/CRD IV (after full implementation)	**30 June 2020**	**31 Dec. 2019**
Risk-weighted assets (EUR billion)	83.8	80.5
Common equity tier 1 (CET 1) capital ratio (in %)	14.2	14.6
Total capital ratio (in %)	21.8	22.9
Employees	**30 June 2020**	**31 Dec. 2019**
Group	10,111	10,005

1 Restatement of prior year amounts (see Note 2).
Differences are due to rounding effects

Rating (6 August 2020)

Rating	Moody's Investors Service	Rating	Fitch Ratings
Long-term Issuer Rating	Aa3, stable	Long-term Issuer Default Rating	A–, negative
Long-term Bank Deposits Senior Unsecured Bank Debt Junior Senior Unsecured Bank Debt	Aa3, stable Aa3, stable A2	Long-term Deposit Rating Long-term Senior Preferred Debt Rating Long-term Senior Non-Preferred Debt Rating	A A A–
Short-term Ratings	P–1	Short-term Issuer Default Rating	F1
Baseline credit assessment (financial strength)	baa2	Viability rating (financial strength)	bbb
Public-sector covered bonds	Aaa	Public-sector covered bonds	-
Mortgage-backed covered bonds	Aaa	Mortgage-backed covered bonds	-

Key figures
of the LBBW Group

Foreword by the Board of Managing Directors

Dear Readers,

The last few months have been largely dominated by the COVID-19 pandemic. In addition to safeguarding the health of our employees and business partners, our top priority has always been – and remains – actively supporting our customers. In these exceptional circumstances, LBBW demonstrated what it is capable of and, as part of the systemically relevant infrastructure, helped sustain economic activity.

Our efforts to considerably develop and modernize the bank in recent years and continually improve our key performance indicators are paying off here. Thanks to our resilient and well-balanced business model, we enjoy a high degree of economic stability, which is particularly vital in times of crisis. We are supporting our corporate customers by expanding lending and securing their liquidity. A key element here is the development loan business. In the first half of the year, we redirected over 8,000 coronavirus-related loan applications for over EUR 4 billion to development banks, both for our own customers and for savings banks customers. There was also high demand for investment and hedging products. We were also able to ensure that other key economic processes such as cash supply, liquidity supply for savings banks and the processing of payment transactions were available at all times, even during lockdown.

All in all, operating business was encouraging in the first half of 2020. Corporate customer and capital markets business performed particularly well, with business with private customers and savings banks remaining stable. At the same time, we also continued our strict cost management, which was reflected in lower administrative expenses.

We significantly increased additions to allowances for losses on loans and securities. In particular, additions were required in connection with a major individual case. In addition, the bank has also made provisions for the potential repercussions of the pandemic-induced economic downturn. Despite this, LBBW generated profit before tax of EUR 103 million in the first half of the year. This shows that we – as a strong universal bank – are able to cope well with extraordinary strains. Even after extensive lending, the common equity Tier 1 capital ratio was a comfortable 14.2%. Here, LBBW's careful risk policies and good portfolio quality are paying off.

In strategic terms, we continued to develop across our four cornerstones of business focus, sustainability, digitalization and agility. For example, we agreed with BayernLB to take over their interest, currency and commodities management for corporate customers at savings banks. This expands our savings banks business further while simultaneously making a key contribution to pooling skills within the Sparkassen-Finanzgruppe. Another example of investments in forward-thinking business areas is the creation of a team of advisors to help companies develop sustainable business models and matching financing instruments. On the topic of sustainability, we also launched our second social bond with a volume of EUR 1 billion.

We continued to make progress in digitalizing our processes, in part by way of the first fully-digital Schuldschein loan that was marketed using our financing platform Debtvision. Especially during the lockdown, our digitalization initiatives from the past few years also paid dividends in numerous ways. The same applies to the increased use of agile working methods, which, for example, allowed us to arrange for many employees to work from home in very little time. Customer processes were also quickly redesigned and we stepped up collaboration in flexible work models.

Thanks to the outstanding and prudent work of all of our staff, we have coped well with the first, difficult phase of the coronavirus pandemic. We would like to sincerely thank all of our employees for their great commitment and loyalty. We would also like to thank our business partners and our owners for their excellent collaboration and support.

It is still difficult to gauge the scope of the economic impact that the coronavirus pandemic will have. Nonetheless, we still expect profit/loss before tax to be into positive figures for the year as a whole.

Sincerely,

RAINER NESKE

Chairman of the Board of Managing Directors

KARL MANFRED LOCHNER

Member of the Board of Managing Directors

DR. CHRISTIAN RICKEN

Member of the Board of Managing Directors

THORSTEN SCHÖNENBERGER

Member of the Board of Managing Directors

VOLKER WIRTH

Member of the Board of Managing Directors

ANDREAS GÖTZ

Chief representative

02 Interim Group management report

Business report for the Group

The first half of the 2020 financial year saw considerable restrictions imposed on public and economic life in order to contain the coronavirus pandemic. Economic output in the first quarter contracted by 2.0% q-o-q, followed by another 10.1% downturn in the second quarter. GDP in the eurozone fell by 3.6% in the first quarter and 12.1% in the second quarter. In the eurozone, countries including Italy, France and Spain were hit particularly hard by the coronavirus pandemic and its economic impact. The consequences around the world were similarly severe. In China, economic growth fell from 6% in the final quarter of 2019 to –6.9% in Q1 2020. GDP growth came to 3.2% in the second quarter of 2020 (all figures against the same quarter of the previous year). GDP in the US fell by 5.0% in Q1 (annualized rate compared to previous quarter) and by 32.9% in Q2. Declining energy prices caused inflation in Germany to drop from 1.7% in January to 0.6% in March.

Central banks responded to the economic downturn by easing monetary policy. The ECB set up another one of its own bond buying programs (Pandemic Emergency Purchase Program – PEPP) and expanded this to EUR 1.35 trillion. It also improved the conditions for its targeted long-term refinancing operations (TLTRO III) so that banks could, in the best case scenario, raise liquidity from the Eurosystem at –1% p.a.

On the bond market, 10-year German government bonds started the year with a yield of –0.19%. As the coronavirus pandemic spread, yields fell to –0.84% by the start of March before then picking up to –0.50% by the end of the first six months, subject to fluctuations. The EUR/USD exchange rate at the start of the year was USD 1.12 to the euro. It peaked at USD 1.14 at the start of March, with the low of USD 1.07 to the euro reached at the end of March. The exchange rate then returned to USD 1.12 to the euro by the mid-year point. The DAX (daily closing prices) slid from 13,789 points on 19 February to 8,441 points on 18 March. It reached 12,847 points on 5 June, and traded at 12,310 points at the time of the interim financial statements on 30 June. The Dow Jones Industrial peaked in mid-February (29,551), recorded its low at the end of March (18,591) and recovered to 27,571 by the start of June.

Business performance of the LBBW Group in the first half of 2020 Results of operations, net assets and financial position

Successful H1 in operating terms with income stable overall; Consolidated profit/loss before tax strained by higher allowances for losses on loans and securities; Ongoing development of strategic cornerstones fundamental to handling the coronavirus crisis.

With its company strategy adopted in 2017 and the related four strategic cornerstones of business focus, sustainability, digitalization and agility, LBBW considers it has put the right systems in place to tackle future challenges even in view of the coronavirus crisis and shape its own future.

Under the business focus cornerstone, LBBW continued its course of growth and, for example, was a joint bookrunner in a EUR 5 billion bond issue package at its customer Siemens. The prestigious London-based information service Trade & Export Finance named LBBW the best bank for export financing, which the bank considers evidence of LBBW's excellent standing in international business. In terms of sustainability, the bank continued to expand financing and investment proposals for customers. One example of this is the joint Schuldschein transaction between LBBW and UniCredit with customer Voith, where interest is linked to the company's sustainability performance. LBBW also issued its second social bond with a volume of EUR 1 billion, which is used to fund social and sustainable projects.

In addition, »Renewable Energies« also received a further boost through the funding of the largest solar power plant in the Netherlands. In the last 20 years, LBBW has funded solar, biomass and wind power plants to a total tune of EUR 2.5 billion. This sustainable business model is also reflected in the rating issued by the environmental protection organization WWF, where LBBW ranks joint first in corporate banking together with two other banks. Numerous digitalization initiatives also continued to make good progress. For example, most employees were kitted out to work from home in order to safeguard staff and ensure the bank's business operations could continue. This was particularly necessary to ensure that employees remained able to work during the coronavirus crisis. LBBW also expanded its digital product portfolio. Further progress was made on the DEBTVISION platform, which LBBW used in March 2020 to issue Germany's first fully digital Schuldschein loan in collaboration with Daimler AG. Digital services in the online corporates portal for corporate customers were stepped up on an ongoing basis, with the share of guarantees processed entirely digitally more than doubling in the first half of the year.

Even in light of the pandemic, LBBW's business performance was marked by stable income. At EUR 1,347 million, the sum of net interest, fee and commission income, net gains/losses from financial instruments measured at fair value through profit or loss and other operating income/expenses was EUR 33 million higher than in the previous year.

Consolidated profit/loss before tax declined by EUR 226 million on account of substantially higher allowances for losses on loans and securities, but was nonetheless still in positive territory after the first six months of the year under review at EUR 103 million (previous year: EUR 329 million). The rise in allowances for losses on loans and securities is also responsible for the marked departure from planning, although the material measures of income (net interest, fee and commission income and net gains/losses from financial instruments measured at fair value through profit or loss) even performed slightly better than expected and administrative expenses significantly outperformed planning. The increase in allowances for losses on loans and securities can be attributed chiefly to two effects: provision that had to be made for a company insolvency and a post-model-adjustment in connection with the coronavirus crisis.

In light of these developments in earnings and expenses and despite taking into account a higher bank levy, the ***cost/income ratio (CIR)*** as at 30 June 2020 was on par with the previous year at 71.2%, improving slightly on the forecast figure. LBBW calculates its CIR as the ratio of total administrative expenses, expenses for the bank levy and deposit guarantee system and net restructuring income to total net interest income, net fee and commission income, net gains/losses on remeasurement and disposal less allowances for losses and other operating income/expenses. ***Return on equity (ROE)*** fell to 1.5% (previous year: 5.1%), putting it well below target. This is primarily a result of deteriorating allowances for losses on loans and securities. RoE is calculated on the basis of (annualized) consolidated profit/loss before tax and average equity on the balance sheet. This figure is adjusted for the unappropriated profit for the current period.

Total assets rose substantially by EUR 33.1 billion as against 31 December 2019 to EUR 289.7 billion. The rise is essentially due to the increase in deposits from banks, which increased by the EUR 20 billion drawing amount when participating in an ECB tender program. In addition, business with major corporate customers and for project financing was also strengthened. Securities purchases to manage liquidity and the LCR ratio also contributed to growth.

LBBW's ***leverage ratio*** was 4.2% as at the end of the reporting period (fully loaded in accordance with CRR/CRD), and was thus down moderately by 0.4 percentage points as against the previous year, primarily a result of expanding business activities. This remains significantly above the current regulatory minimum of 3.0%.

As at 30 June 2020, LBBW's ***minimum liquidity coverage ratio (LCR)*** under Commission Delegated Regulation (EU) 2015/61 with regard to liquidity coverage requirements was 142.3%, representing a 18.7 percentage point rise on the figure at the end of 2019 (123.6%). This upturn was driven chiefly by higher balances with central banks due to participating in the ECB's tender program. The statutory minimum for 2020 of 100% was therefore substantially exceeded.

Risk-weighted assets[1] rose slightly by EUR 3.3 billion in the period under review to EUR 83.8 billion (previous year: EUR 80.5 billion). In addition to growth in the operating segments, re-ratings also had an impact.

The European Central Bank's (ECB) requirements for the common equity Tier 1 (CET 1) capital ratio were lowered in response to the coronavirus crisis. In 2020, LBBW is now required to maintain a common equity Tier 1 capital ratio of 8.98% (currently: 9.75%). This ratio includes the 0.98% portion of the Pillar 2 capital requirement to be backed by CET 1 capital on a pro rata basis, the capital conservation buffer under Section 10c KWG of 2.5% and the 1.0% capital buffer for other systemically important institutions in accordance with Section 10g KWG. Section 10d of the German Banking Act (*Kreditwesengesetz*, KWG) also requires a countercyclical capital buffer to be held. This covers only a small share of foreign receivables, as the BaFin retracted the introduction of a countercyclical capital buffer for German receivables on account of coronavirus pandemic and various foreign supervisory authorities lowered the requirement. The ECB has also declared a capital recommendation that goes beyond the mandatory requirement, which must also comprise CET1 capital.

1 Ratio in accordance with CRR/CRD IV (after full implementation)

The LBBW Group's ***capital ratios*** as at the end of the reporting period therefore remained well in excess of the regulatory capital requirements (CRR/CRD IV fully loaded). Specifically, the ***common equity Tier 1 capital ratio*** was 14.2% (31 December 2019: 14.6%) and the ***total capital ratio*** was 21.8% (31 December 2019: 22.9%).

LBBW believes risk-bearing capacity remains at a comfortable level. The utilization of ***aggregate risk cover (ARC)*** rose to 61.2% as at the end of the reporting period (31 December 2019: 58.8%). This slight increase was for the most part caused by changes in interest rates and the impact this had on valuation reserves, as well as deductions from prudent valuation.

Overall, in the first half of 2020 the LBBW Group's key performance indicators were largely stable as against the end of 2019, even accounting for the coronavirus pandemic.

In response to the coronavirus crisis, active crisis management was also implemented with a focus on safeguarding technical infrastructure and working capacity. A dashboard was also set up to manage key performance indicators and this was prepared primarily in active crisis mode, in some cases on a weekly basis. The central focus of this management was the liquidity situation and allocating the segments with regard to risk-weighted assets (RWA). LBBW stepped up its lending to corporate customers as a way of ensuring the supply of credit, with take-up of lines of credit increasing by EUR 3.8 billion in the period from February until the end of June. At the same time, there was also a focus on securing customers' cash supply.

Results of operations

With **consolidated profit before tax** of EUR 103 million, LBBW was in positive territory in the first half of the 2020 financial year despite the influence of the coronavirus pandemic. The condensed income statement for the LBBW Group has been presented below (please also see the comments in the notes for the figures for the individual segments):

	1 Jan. 2020 – 30 June 2020	1 Jan. 2019 – 30 June 2019[1]	Change	
	EUR million	EUR million	EUR million	in %
Net interest income	872	811	62	7.6
Net fee and commission income	274	279	– 5	– 1.6
Net gains/losses on remeasurement and disposal	– 182	154	– 336	-
of which allowances for losses on loans and securities	– 281	– 63	– 218	>100
Other operating income/expenses	90	52	38	72.7
Total operating income/expenses	*1055*	*1,296*	*– 241*	*– 18.6*
Administrative expenses	– 834	– 864	30	– 3.5
Expenses for bank levy and deposit guarantee system	– 118	– 102	– 16	15.5
Net income/expenses from restructuring	1	0	1	-
Consolidated profit/loss before tax	*103*	*329*	*– 226*	*– 68.7*
Income taxes	– 51	– 103	52	– 50.7
Net consolidated profit/loss	*52*	*226*	*– 174*	*– 76.8*

Figures may be subject to rounding differences. Percentages are based on the exact figures.
1 Restatement of prior year amounts (see Note 2).

Net interest income improved, picking up by EUR 62 million to EUR 872 million. This was driven largely by a marked improvement in profit/loss in Capital Markets Business. Business was also boosted, especially with major corporate customers and for project financing. Ongoing historically low interest rates particularly strained the deposit business, which – despite the increase in volume – saw high pressure on margins on account of the level of competition. In addition, LBBW also took advantage of the European Central Bank's targeted longer-term refinancing operations in 2020, too (TLTRO II/TLTRO III), generating earnings from this of EUR 9 million (previous year: EUR 8 million).

At EUR 274 million, ***net fee and commission income*** was almost in line with the previous year (previous year: EUR 279 million). The securities and custody business performed particularly well, improving by EUR 9 million to EUR 109 million, with commission from securities transactions with customers playing an especially large role in this. Net gains/losses from the lending business fell slightly, decreasing by EUR –4 million to EUR 58 million. This chiefly reflected a lower contribution in the guarantee business. In addition, income in the payments business fell from EUR 51 million in the previous year to EUR 46 million.

Net gains/losses on remeasurement and disposal declined to EUR –182 million (previous year: EUR 154 million) and was defined by the effects described below:

Individual cases had a particularly negative impact on ***allowances for losses on loans and securities***, which rose significantly by EUR –218 million against the previous year to EUR –281 million. A post-model-adjustment was also made in connection with the coronavirus crisis as the reliability of statistical allowances for losses on loans and securities models, which were parameterized on the basis of multi-year data, is limited in this context. This used tailored individual models, some of which also incorporated sector-specific assessments by experts. Measured by the rating classes 1 to 5, LBBW continues to enjoy good portfolio quality.

The marked decline in net income from ***financial instruments measured at fair value through other comprehensive income*** was caused in particular by lower contributions from sales of securities as part of managing the LCR portfolio. As a result, net income from securities fell by EUR –53 million to EUR – 10 million.

Net gains/losses from ***financial instruments measured at fair value through profit or loss*** decreased by EUR –62 million to EUR 110 million (previous year: EUR 172 million). While capital market activities actually improved year on year thanks to high customer demand for hedging products, with gains/losses of EUR 150 million (previous year: EUR 138 million), the contribution from banking book transactions fell. This saw a decline of EUR –76 million to EUR –42 million, chiefly a result of the ineffectiveness of derivatives as part of the Treasury's interest rate management and interest-related measurement effects. Net gains/losses from equity investments and affiliates reported with net gains/losses from financial instruments measured at fair value through profit or loss as an element of banking book activities declined to EUR –6 million as at 30 June 2020 (previous year: EUR 2 million).

Other operating income/expenses rose by EUR 38 million and came to EUR 90 million (previous year: EUR 52 million). This upturn was attributable predominantly to the EUR 33 million improvement (net) to gains/losses related to legal issues, which were shaped by lower additions to provisions for legal risks in comparison to the previous year.

Administrative expenses were reduced by EUR 30 million year-on-year to EUR –834 million (previous year: expenses of EUR –864 million), reflecting the implementation of cost leverage and aperiodic development. Staff costs saw a particular downturn, falling from EUR –507 million to EUR –486 million. Performance especially benefited from improved net gains/losses from personnel-related provisions. Other administrative expenses also decreased by EUR 11 million to EUR –280 million (previous year: expenses of EUR –291 million). This was essentially thanks to slightly lower IT costs and lower expenses for representation, catering and marketing. Write-downs rose by a total of EUR –2 million to EUR –67 million due to investments in property and equipment.

Expenses for the bank levy and deposit guarantee system rose significantly by EUR –16 million to EUR – 118 million. This was particularly affected by the increase in the target volume for the bank levy due to the 7.2% rise in covered deposits in the eurozone in 2019. The contribution payable each year (»annual target level«) was increased from 1.15% to 1.25% of the covered deposit volume in order to achieve the higher target volume.

At EUR 103 million, *consolidated profit before tax* was down on the previous year's figure of EUR 329 million. Income tax expenses were correspondingly lower, falling by EUR 52 million to EUR – 51 million (previous year: EUR –103 million). *Net consolidated profit/loss after tax* was EUR 52 million (previous year: EUR 226 million).

Net assets and financial position

Assets	30 June 2020 EUR million	31 Dec. 2019[1] EUR million	Change EUR million	 in %
Cash and cash equivalents	33,009	18,331	14,678	80.1
Financial assets measured at amortized cost	173,005	167,202	5,803	3.5
Loans and advances to banks	56,263	55,801	463	0.8
Loans and advances to customers	115,794	110,320	5,474	5.0
Debentures and other fixed-income securities	948	1,082	– 134	– 12.4
Financial assets measured at fair value through other comprehensive income	34,260	30,245	4,015	13.3
Financial assets designated at fair value	1,168	1,170	– 2	– 0.2
Financial assets mandatorily measured at fair value through profit or loss	40,829	33,013	7,816	23.7
Shares in investments accounted for using the equity method	259	265	– 6	– 2.3
Portfolio hedge adjustment attributable to assets	1,136	839	298	35.5
Non-current assets held for sale and disposal groups	0	65	– 65	100.0
Intangible assets	184	198	– 13	– 6.7
Investment property	669	655	14	2.2
Property and equipment	840	814	26	3.2
Current income tax assets	141	126	15	12.0
Deferred income tax assets	1,075	1,089	– 14	– 1.3
Other assets	3,134	2,619	515	19.7
Total assets	*289,709*	*256,630*	*33,079*	*12.9*

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

Equity and liabilities	30 June 2020 EUR million	31 Dec. 2019[1] EUR million	Change EUR million	 in %
Financial liabilities measured at amortized cost	231,506	201,890	29,615	14.7
Deposits from banks	86,952	66,633	20,319	30.5
Deposits from customers	95,111	90,319	4,792	5.3
Securitized liabilities	43,637	38,815	4,821	12.4
Subordinated capital	5,807	6,123	– 316	– 5.2
Financial liabilities designated at fair value	6,579	6,757	– 178	– 2.6
Financial liabilities mandatorily measured at fair value through profit or loss	30,158	26,959	3,199	11.9
Portfolio hedge adjustment attributable to liabilities	743	486	258	53.1
Provisions	4,373	4,410	– 36	– 0.8
Liabilities from disposal groups	0	4	– 4	– 100.0
Income tax liabilities	72	89	– 16	– 18.5
Other liabilities	2,377	2,113	263	12.5
Equity	13,901	13,923	– 22	– 0.2
Total equity and liabilities	*289,709*	*256,630*	*33,079*	*12.9*
Guarantee and surety obligations	7,401	7,777	– 376	– 4.8
Irrevocable loan commitments	27,294	28,961	– 1,668	– 5.8
Business volume	*324,404*	*293,369*	*31,035*	*10.6*

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

Significant rise in consolidated total assets

As at 30 June 2020, ***total assets*** were up EUR 33.1 billion as against the end of 2019 at EUR 289.7 billion. The rise in total assets is essentially due to higher deposits from banks, which rose by the drawing amount of EUR 20 billion as a result of participating in the ECB's tender program. In addition, business with major corporate customers and for project financing was also strengthened. Securities purchases to manage the LCR ratio also resulted in an increase.

The ***business volume*** (consolidated total assets including the off-balance-sheet surety and guarantee agreements and irrevocable loan commitments) picked up in line with this, rising by EUR 31.0 billion to EUR 324.4 billion.

Since last year, banks have been able to access a new range of particularly well priced TLTRO III loans from the ECB. The central bank's aim here is to increase eurozone banks' lending to companies and private customers. In total, seven TLTRO III were conducted in the period from September 2019 to March 2021 at quarterly intervals. LBBW took up EUR 20 billion in the tender in June, thereby completely replacing the existing TLTRO II of EUR 4 billion.

Lending

Cash and cash equivalents amounted to EUR 33.0 billion as at 30 June 2020, a considerable, EUR 14.7 billion upturn on the figure for the previous year (EUR 18.3 billion). The increase essentially stems from the rise in central bank balances due to participating in the ECB's tender program (TLTRO-III).

The item ***financial assets measured at amortized cost*** rose moderately by EUR 5.8 billion to EUR 173.0 billion, attributable almost entirely to loans and advances to customers.

Loans and advances to banks rose by EUR 0.5 billion, bringing their total to EUR 56.3 billion as at 30 June 2020. This was chiefly a result of the EUR 1.3 billion rise in securities repurchase transactions with central counterparties to EUR 12.7 billion.

The portfolio of ***loans and advances to customers*** saw the largest upturn among financial assets measured at amortized cost, rising by EUR 5.5 billion to EUR 115.8 billion. Customer business to provide support in times of crisis in almost all segments contributed to growth. Mortgage backed loans rose by EUR 4.5 billion to EUR 36.1 billion, overnight and term deposits by EUR 3.1 billion to EUR 9.5 billion and securities repurchase transactions by EUR 1.7 billion to EUR 10.2 billion. By contrast, other loans fell by EUR – 1.7 billion in the reporting period to EUR 26.3 billion.

Financial assets measured at fair value through other comprehensive income saw a EUR 4.0 billion rise to EUR 34.3 billion. Securities purchases for portfolios to manage liquidity increased bonds and debentures by EUR 4.6 billion to EUR 29.8 billion. By contrast, money market paper, especially commercial papers and certificates of deposit, declined by EUR –0.5 billion to EUR 1.0 billion.

Financial assets mandatorily measured at fair value through profit or loss increased by EUR 7.8 billion to EUR 40.8 billion. Interest rates declined sharply in the first half of 2020 in connection with the coronavirus crisis, causing positive fair values from derivatives to rise by EUR 4.3 billion to EUR 24.2 billion. Receivables from trading assets picked up by EUR 2.8 billion to EUR 7.7 billion and debentures and other fixed-income securities by EUR 1.0 billion to EUR 5.8 billion.

Funding

In line with developments under assets, the item ***financial liabilities measured at amortized cost*** was affected by the most significant changes in volume in comparison to the previous year, with growth of EUR 29.6 billion to EUR 231.5 billion.

Deposits from banks increased by EUR 20.3 billion to EUR 87.0 billion. In particular, this development was due to a EUR 18.2 billion increase in overnight and term deposits to EUR 46.0 billion in connection with participating in the ECB's tender program. Transmitted loans rose by EUR 1.3 billion to EUR 30.0 billion. This was countered by a EUR – 1.4 billion decline in securities repurchase transactions to EUR 0.6 billion.

At EUR 95.1 billion, the item ***deposits from customers*** was up EUR 4.8 billion against the figure for 31 December 2019. The volume of current account liabilities increased by EUR 6.4 billion to EUR 52.6 billion. Corporate customers and asset management companies in particular increasingly took advantage of LBBW investments. This was offset by a EUR –1.0 billion decrease in overnight and term deposits to EUR 28.5 billion and a EUR –0.3 billion fall in securities repurchase transactions to EUR 1.6 billion.

The volume of ***securitized liabilities*** expanded by EUR 4.8 billion in the reporting period to EUR 43.6 billion. Short-term refinancing via securitized money market transactions was chiefly expanded outside Germany, increasing by EUR 3.3 billion to EUR 13.5 billion. As sustainability is one of LBBW's four strategic cornerstones, the bank believes it continued to systematically put its sustainability efforts into practice. As part of this, its own funding was supplemented by a first green bond in pound sterling, with a volume of GBP 500 million, and a second social bond of EUR 1.0 billion.

Subordinated capital declined by EUR –0.3 billion to EUR 5.8 billion in the reporting period in connection with the repayment of subordinated deposits and silent partners' contributions.

Financial liabilities designated at fair value remained virtually in line with the previous year, decreasing by EUR –0.2 billion, as maturities and the volume of new business balanced each other out overall. Considerably wider spreads owing to the coronavirus pandemic resulted in lower fair values and thus a decline in carrying amounts, especially for subordinated bonds. Planned maturities here meant that the items reported a fall of just EUR 0.1 billion to EUR 0.6 billion.

As in the items under assets, ***financial liabilities mandatorily measured at fair value through profit or loss*** rose by EUR 3.2 billion to EUR 30.2 billion. The sharp decline in interest rates in the first half of the year also had an impact here on the measurement of derivatives, resulting in a EUR 3.8 billion rise in negative fair values from derivatives and bringing this figure to EUR 20.8 billion. By contrast, securitized liabilities reported a decrease of EUR –0.6 billion to EUR 5.8 billion, with delivery obligations from short sales of securities falling by EUR –0.3 billion to EUR 0.5 billion.

Equity

At EUR 13.9 billion as at 30 June 2020, LBBW's ***equity*** was unchanged as against the end of 2019. Wider spreads on account of the coronavirus pandemic caused a EUR 0.1 billion rise in measurement gains/losses from own credit rating. Valuation reserves declined by EUR –0.3 billion due to valuations of bonds and debentures measured at fair value through other comprehensive income in the amount of EUR –0.1 billion and reclassifications of valuation reserves from equity instruments to other retained earnings in the amount of EUR –0.2 billion.

Financial position

LBBW's funding strategy is determined by the Asset Liability Committee (ALCo). Here the Group focuses on ensuring a balanced overall structure in terms of the groups of products and investors used. Another increase in excess liquidity following the ECB's longer-term tender was also reflected in LBBW's extensive liquidity. The LBBW Group's sources of funding are very stable in terms of volume and diversification. CRR banks have been required to maintain a liquidity coverage ratio (LCR) of 100% since 1 January 2018. The LCR was met during the entire reporting period.

Risk report

Risk management systems

The risk management methods and processes presented in the combined management report as at 31 December 2019 are still applied by the LBBW Group as at 30 June 2020. Material changes are described below.

Risk types

Detailed notes on the definition of risks and on the risk management system as a whole can be found in the combined management report for 2019. The following table provides a brief overview:

Risk category	Describes possible ...
Counterparty default risks	... Losses arising from the default or deterioration in the credit rating of business partners. ... Defaults by sovereign borrowers or restrictions on payments. ... Losses arising from shortfall in proceeds from the liquidation of collateral.
Market price risks	... Losses caused by changes in interest rates, credit spreads, equity prices, exchange rates, commodity prices, volatility. ... Problem of not being able to quickly close out larger positions at market value.
Liquidity risks	... Problems meeting payment obligations in the short term.
Operational risks	... Losses arising from the unsuitability or failure of internal processes and systems, people, or due to external events, including legal risks.
Investment risks	... Losses in the value of Group companies and equity investments not included in the above risk categories.
Reputation risks	... Losses caused by damage to the Bank's reputation.
Business risks	... Losses due to less favorable business performance than expected or from strategic errors, provided that they do not relate to the aforementioned characteristic banking risks.
Pension risks	... Increase in provisions for pensions.
Real estate risks	... Losses in the value of the Group's real estate holdings.
Development risks	... Losses resulting especially from potential plan variances in the project development business of LBBW Immobilien Management GmbH.
Model risks	... Losses that can arise as a result of decisions that are based on the result of models. Triggering factors could include errors in the concept, application and validation of models.

Regulatory framework and development of the risk management process

LBBW is assigned to Directorate General within the ECB's banking supervision, which monitors the most important banks across Germany.

At the start of 2020, it was announced that key issues for supervisory activities would include continuing to restructure balance sheets, restoring sound banking by continuing to reduce the volume of non-performing loans and helping process the findings of the TRIM reviews. Trade risks and the measurement of assets should also be examined in more detail.

In addition, the focus of supervisory work increasingly shifted to banks' future resilience. To do so, supervisory bodies would like to continue reviewing processes for ensuring adequate capital and liquidity (ICAAP and ILAAP), as well as profitability and the business models. Further focal points were IT and cyber risks, governance and the quality of lending guidelines and underlying exposures.

The coronavirus pandemic also forced banking supervision to move into crisis mode. While the focus initially was on operating relief (for example, the EBA/ECB stress test was canceled), close monitoring was implemented as the situation developed. This included additional disclosure and reporting requirements. Focus was and remains on ensuring banks' liquidity and solvency as well as lending to the real economy at the same time.

The future development and nature of the regulatory framework is fundamentally dependent on how the coronavirus pandemic unfolds moving forwards and its impact on the banking sector.

LBBW's integrated bank management is currently undergoing further development. The focus is on harmonizing the accounting systems and reporting structures between the steering segments finance, Group risk and financial controlling, and on creating the basis (processes, methods, IT) for further aligning integrated bank management with the more stringent requirements. The structural aspects are being addressed in a medium-term program. Another milestone was achieved in the first half of 2020 with the linking of the loan system for large and complex loans.

Risk situation of the LBBW Group

LBBW manages its risks from two mutually complementary perspectives. To ensure adequate capitalization from an economic point of view, a Group-wide compilation of risks across all material risk types and subsidiaries, and the comparison of these with the capital calculated from an economic perspective (aggregate risk cover). In addition to the economic perspective, LBBW's risk appetite and management concept includes the regulatory steering group. This steering group is responsible for ensuring compliance with regulatory capital and risk parameters at all times. To this end, internal targets are set above the minimum regulatory requirements and compliance is ensured by way of an ongoing monitoring process. Details on the regulatory key figures can be found in the report on results of operations, net assets and financial position, the notes and in the section on liquidity risks.

The economic capital commitment has declined by a total of EUR 0.1 billion since the end of 2019. The increase in counterparty default risks is due chiefly to portfolio developments and interest rate changes. It is offset by a decrease in other risks: As part of a change to methodology, the interest-dependent components of the pension risks were allocated in full to market price risks, with the remaining non-interest components (e.g. change in employee mortality) categorized as immaterial. Improvements to the calculation of market price risk make up for the increase resulting from integrating pension risks.

As at the end of the first half of 2020, aggregate risk cover (ARC) had declined by EUR 0.5 billion compared to the end of 2019. The decline chiefly reflects changes in interest rates and the impact this has on revaluation reserves, as well as deductions from prudent valuation.

To sum up, it can be stated that the risk-bearing capacity of the LBBW Group was maintained at every reporting date in the first half of 2020. The permanent viability required in line with regulations was guaranteed. To test this, specific scenarios were simulated detailing the development of the coronavirus pandemic crisis. The bank retained its risk-bearing capacity even in the severe scenario.

The economic capital limit was maintained at all reporting dates at Group level. The utilization of aggregate risk cover was 61% as at 30 June 2020.

LBBW Group – Risk-bearing capacity

	30 June 2020		31 Dec. 2019	
EUR million	**Absolute**[1]	**Utilization**	**Absolute**[1]	**Utilization**
Aggregate risk cover	11,517	61%	12,116	59%
Economic capital limit[2]	10,000	71%	10,000	71%
Correlated total economic capital	7,052		7,126	
of which:				
Interrisk correlations	– 483		– 483	
Counterparty default risks	4,067		3,692	
Market price risks	2,282		2,341	
Investment risks	37		43	
Operational risks	599		655	
Development risks	155		153	
Real estate risks	117		121	
Other risks[3]	279		604	

1 Confidence level 99.9%/1 year holding period.
2 The individual risk types are capped by economic capital limits.
3 Other risks (particularly reputation, business, non-interest pension and model risks).

The rapid growth of the coronavirus pandemic outbreak means that only very limited exact forecasts can be made regarding the further impact on risk-bearing capacity. Individual risk management methods were amended to take account of regulatory easing during the coronavirus pandemic.

Despite the perceptibly gloomier general economic conditions, the portfolio had not generally deteriorated in terms of counterparty default risks as at 30 June 2020. The crisis is not expected to affect portfolio quality until the second half of 2020 onwards. Market volatility induced by the coronavirus pandemic, which is now already beginning to subside, has so far not had any impact on the economic capital in market price risk as the model includes a parameterization for crisis volatility. Nonetheless, it does impact value-at-risk for market risks, which are described in the corresponding section.

An assessment of the coronavirus pandemic regarding LBBW's liquidity can be found in the section on liquidity risks.

Risk types[1]

Counterparty risk

Risk situation of the LBBW Group[2]

The description of the risk situation is based on the credit risk management methods and instruments described in the combined management report for 2019.

The primary parameter in the following comments is gross/net exposure. In this context, gross exposure is defined as the fair value or utilization plus outstanding external loan commitments. Net exposure also takes risk-mitigating effects into account. These include netting and collateral agreements, the hedging effect of credit derivatives or the inclusion of classic credit collateral such as real estate liens, financial collateral, guarantees or bonds.

Note 30 (»Counterparty default risk«) also includes additional details (in accordance with the disclosure requirements under IFRS 7) to supplement the tables provided in the risk report.

Development of exposure

The following table shows the performance of the two exposure variables and the risk-mitigating effects on the respective reporting date.

Development of exposure

EUR million	30 June 2020	31 Dec. 2019
Gross exposure	**400,508**	**353,332**
Netting/collateral	132,238	98,911
Credit derivatives (protection buy)	5,878	6,620
Classic credit collateral	41,487	41,776
Net exposure	*220,905*	*206,025*

Gross exposure amounts to EUR 401 billion as at the end of the reporting period, and is therefore around EUR 47 billion higher than as at the end of 2019, driven primarily by the market performance of interest rate derivatives. As a result of the simultaneous increase in the risk-reducing effects of netting and collateral agreements and despite a decline in credit derivatives (protection buy), the increase is not fully reflected in net exposure. Net exposure rose by EUR 15 billion or 7% to EUR 221 billion.

The information below on portfolio quality, sectors, regions and size classes provide an overview of the aspects relevant to the LBBW Group's risk situation on the basis of its net exposure.

Portfolio quality

The breakdown by internal rating class shows the year-on-year development in portfolio quality.

1 Information on correlated total economic capital for the individual risk types can be found in the section on the risk management systems/risk situation of the LBBW Group.
2 Statements on the risk situation are based on the management approach. Differences in comparison to amounts stated in relation to accounting are due to the reasons described in the 2019 risk report.

Portfolio quality

Net exposure	EUR million 30 June 2020	in % 30 June 2020	EUR million 31 Dec. 2019	in % 31 Dec. 2019
1(AAAA)	32,537	14.7	26,886	13.1
1(AAA) – 1(A–)	107,568	48.7	103,326	50.2
2 – 5	60,986	27.6	53,873	26.1
6 – 8	11,607	5.3	14,876	7.2
9 – 10	3,488	1.6	2,791	1.4
11 – 15	1,757	0.8	1,558	0.8
16 – 18 (default)1	1,200	0.5	949	0.5
Other2	1,762	0.8	1,767	0.9
Total	*220,905*	*100.0*	*206,025*	*100.0*

1 »Default« refers to exposure for which a default event as defined in Article 148 CRR has occurred, e.g. improbability of repayment or 90-day default. The net exposure is presented before impairment.
2 Includes non-rated transactions, in particular rating waivers.

The investment grade share (ratings of 1(AAAA) to 5) increased slightly to 91.0% (31 December 2019: 89.4%), chiefly as a result of an increase in exposure with good credit ratings. Accordingly, the non-investment grade share of the portfolio (ratings 6 to 15) fell to 7.6% (previous year: 9.3%). The top rating class 1 (AAAA) mainly includes the German public sector. The non-performing exposure still accounts for 0.5% of the entire portfolio.

Although some ratings did deteriorate, as at 30 June 2020 the portfolio quality had not generally deteriorated as a result of the coronavirus pandemic. Nevertheless, the economic environment has deteriorated noticeably and it is uncertain how the situation will develop moving forwards. LBBW expects a more sustained crisis impact on portfolio quality only as from the second half of 2020. LBBW joined several moratoriums from lending associations and granted payment deferrals to customers impacted by the coronavirus pandemic. In our customers’ risk assessment, the process relief measures defined in the EBA Guidelines 2020/02 for borrowers involved in a moratorium were utilized.

Sectors

The presentation of the sectors by net exposure, credit value-at-risk (CVaR) and default portfolio also provides information on the scope of business activities and the risk situation in the respective sector. The sector classification is based on LBBW's internal risk-oriented industry code.

Sectors

EUR million	Net exposure 30 June 2020	CVaR 30 June 2020	Net exposure on default 30 June 2020	Net exposure 31 Dec. 2019	CVaR 31 Dec. 2019	Net exposure on default 31 Dec. 2019
Financials	**96,839**	**885**	**24**	**89,219**	**917**	**28**
of which transactions under specific state liability[1]	11,628	13	0	8,536	8	0
Corporates	**83,715**	**1,911**	**1,132**	**79,846**	**1,807**	**863**
Automotive	12,101	357	428	11,862	371	346
Construction	7,646	160	62	7,262	157	67
Chemicals and commodities	6,826	157	52	6,942	143	76
of which chemicals	3,082	76	0	3,185	64	0
of which commodities	3,744	81	52	3,757	79	76
Retail and consumer goods	13,245	382	157	12,812	299	157
of which consumer goods	9,366	253	37	8,950	178	31
of which durables	3,878	128	120	3,862	120	126
Industry	10,182	213	120	9,920	210	88
Pharmaceuticals and healthcare	4,712	88	8	4,468	82	8
TM and electronics/IT	6,949	129	227	6,541	127	22
Transport and logistics	6,664	139	14	5,790	134	10
Utilities and energy	8,267	196	44	8,060	199	42
of which utilities and disposal companies	4,495	88	38	4,375	90	35
of which renewable energies	3,772	107	6	3,685	109	8
Other	7,124	89	21	6,189	86	46
Real estate	**12,444**	**407**	**24**	**12,223**	**357**	**36**
Commercial real estate (CRE)	8,138	294	18	8,883	296	31
Housing	4,306	113	6	3,340	61	6
Public sector	**21,710**	**161**	**0**	**19,033**	**152**	**0**
Private individuals	**6,197**	**112**	**21**	**5,705**	**100**	**22**
Total	**220,905**	**3,475**	**1,200**	**206,025**	**3,332**	**949**

1 Transactions with a statutory guarantee (Gewährträgerhaftung) and transactions with central banks and banks with a public-sector background.

Financials represent the largest of the five main sectors with net exposure of EUR 97 billion as at the end of the reporting period. The increase of EUR 8 billion as against the end of 2019 is essentially due to the increased exposure to central banks, savings banks and private banks. The rise in exposure to central banks also entails a higher number of transactions under special public-sector liability.

In the corporates portfolio, above all the transport and logistics, retail and consumer goods, TM and electronics/IT and construction sectors contributed EUR 4 billion to net exposure, bringing the total to EUR 84 billion in the first half of 2020. Automotive is an important sector for the portfolio and is therefore be monitored closely in the interests of managing sector concentrations. The automotive portfolio's share in the corporates portfolio was further reduced in H1 2020 from 14.9% as at 31 December 2019 to 14.5% of net exposure. The market downturn caused by the current coronavirus pandemic and the implications of this for what is nonetheless still dynamic technological change (essentially e-mobility, autonomous driving) are assessed on an ongoing basis and appraised in the process of making loan decisions.

Net exposure in real estate as a whole of EUR 12 billion is in line with the previous year. The portfolio is distributed among strategic locations.

Public-sector net exposure was up approximately EUR 3 billion as against the end of 2019 at EUR 22 billion. This increase relates primarily to German non-central public-sector entities.

The portfolio of private individuals has a particularly high level of granularity and saw slight growth.

Regions

The following table shows the geographic breakdown in comparison to 31 December 2019.

Regions

Net exposure in %	Share 30 June 2020	Share 31 Dec. 2019
Germany	66.8	67.7
Western Europe (excluding Germany)	21.3	22.3
North America	6.5	5.1
Asia/Pacific	3.4	2.9
Eastern Europe	1.0	0.9
Latin America	0.5	0.6
Africa	0.0	0.1
Other[1]	0.5	0.5
Total	*100.0*	*100.0*

1 Transactions not allocated to a particular country (e.g. transactions with supranational institutions).

The share of domestic business in the net exposure as at 30 June 2020 was 66.8%. The basic distribution by region was largely constant. The focus on the core markets in private, SME and large customer business, and the function as a central bank for the savings banks, will ensure a dominant German share in the future as well.

Foreign exposure is spread across Western Europe and North America in particular. Exposure to Eastern Europe (especially non-EU countries), Latin America and Africa predominantly results from export finance and foreign trade financing. Their share of net exposure is of subordinate importance.

Internationally, too, the first half of 2020 was largely dominated by the COVID-19 pandemic. Other areas of conflict such as trade disputes and Brexit faded into the background. A sharp economic slump followed by recovery at a reduced level is expected for most countries. LBBW's international business is traditionally conservative. In light of current developments, further business restrictions were imposed for some economies.

Size classes

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

Size classes

Net exposure	Number 30 June 2020	Net exposure in % 30 June 2020	Number 31 Dec. 2019	Net exposure in % 31 Dec. 2019
Up to EUR 10 million	695,212	10.1	711,200	10.5
Up to EUR 50 million	1,206	12.1	1,204	13.0
Up to EUR 100 million	272	8.6	269	9.2
Up to EUR 500 million	332	32.3	313	32.7
Up to EUR 1 billion	59	18.4	50	17.2
Over EUR 1 billion	20	15.5	20	14.2
LBBW Group	98	3.0	95	3.3
Total	*697,199*	*100.0*	*713,151*	*100.0*

The size classes up to a net exposure of EUR 100 million account for 31% of the net exposure (previous year: 33%). The large number of customers is due in particular to the retail portfolio.

With shares of 95% and 98% respectively, very good to good credit ratings (1 (AAAA) to 5) dominate the two net exposure size classes EUR 100 million to EUR 500 million and EUR 500 million to EUR 1 billion.

On balance, the number of exposures with a net exposure in excess of EUR 1 billion is level with the previous year. This size category accounts for around 16% of the portfolio (previous year: 14%). Financials dominated this size class as at the reporting date 30 June 2020 with a share of 56%, while the public sector (German non-central public sector entities) accounts for a further 22% and corporates for 21%. These are 20 counterparties with exclusively very good ratings (minimum rating class 1 (A-) and two with the rating class 2.

Market price risks

Risk situation of the LBBW Group

The LBBW Group's market price risk increased in the first half of 2020. The following table shows the composition of the value-at-risk (99%/10 days) by risk type at LBBW Group level:

VaR 99%/10 days

EUR million	Average	Maximum	Minimum	30 June 2020	31 Dec. 2019
LBBW Group	**149**	**212**	**97**	**189**	**100**
Swap risk	75	111	52	93	54
Credit spread risk	114	197	76	140	80
Equity risks	9	22	5	8	9
Currency risks[1]	3	4	1	3	1

1 Including commodity risks.

The rise in overall risk and swap and credit spread risk stems largely from higher volatility in the parameters included in the risk calculation (e.g. credit spreads, interest rates, equities). The increase in volatility was triggered by the coronavirus pandemic. To a lesser extent, a build-up of positions in securities for liquidity management also contributed to the upturn in risk.

The following table shows the composition of the value-at-risk (99%/10 days) by risk type at trading book level:

VaR 99%/10 days

EUR million	Average	Maximum	Minimum	30 June 2020	31 Dec. 2019
Trading book	**20**	**32**	**12**	**22**	**14**
Swap risk	10	18	6	13	10
Credit spread risk	16	28	9	19	10
Equity risks	9	22	5	8	9
Currency risks[1]	3	4	1	3	1

1 Including commodity risks.

In the trading book, too, the rise in risk chiefly reflects higher volatility in the parameters included in the risk calculation.

The internal risk model for calculating LBBW's exposure to market price risks has been approved by the regulatory authorities for general interest rate and equity risks, including option price risks within the meaning of volatility risks. The internal model for capital adequacy does not cover any specific risks. Capital adequacy is calculated based on the CRR portfolio. The CRR portfolio represents the trading book excluding funds that cannot be represented transparently. The risks identified in this way are weighted and applied towards capital backing requirements. The risk model is also used to calculated economic capital as part of the risk-bearing capacity assessment. For this, the total risk in a significant stress period is scaled to a parameter set covering multiple risk types regarding the confidence level and holding period and is more stable when a real crisis occurs.

LBBW's risk model is subject to a statistical backward comparison (backtesting) as part of the validation program. The backtesting of clean P/L of the internal risk model for the previous 250 trading days gave rise to ten exceptions for the CRR portfolio. Three exceptions occurred in August 2019 as a result of higher market volatility for credit spreads and yield curves. This was triggered by comments from the ECB on interest rates, news on forming a government in Italy and Brexit reports. There were seven exceptions in March 2020 sparked by market turbulence stemming from the coronavirus pandemic. This created considerable uncertainty on the capital market. The exceptiopns reflect the sudden shift to a crisis market.

Additional backtesting on the basis of dirty P/L[1] is performed on account of regulatory requirements. On this basis, two exceptions were found in the CRR portfolio as at the end of the reporting period for the past 250 trading days. The first exception occurred in December 2019 due to a change in methodology for a valuation adjustment for unsecured derivatives. The second outlier was recorded in March 2020. This is due to large fluctuations in credit spreads and interest rates caused by the coronavirus pandemic and to the posting of a valuation adjustment.

LBBW took up the relief granted by supervisory authorities for the surcharge factor for backtesting outliers as at 30 June 2020.

In addition to the value-at-risk measurements, weekly stress test reporting is conducted. The change in the value for the stress scenario with the greatest impact on the LBBW Group increased in the first half of 2020. There was also a change of scenario in comparison to the end of 2019. There is now a scenario in effect that maps a financial market crisis in line with that of 2008/2009. The change of scenario and the increase in the change can be attributed to the changed positioning in securities for liquidity management purposes. The stress test scenarios are monitored on an ongoing basis and adapted to current market conditions as necessary.

1 Dirty P&L represents the actual change in value excluding commission and fees.

Liquidity risks

Risk situation of the LBBW Group

Excess market liquidity further increased following the ECB’s longer-term tender at the end of June (TLTRO III), which is also reflected in LBBW's extensive liquidity. The customer deposit business performed well even after the start of the coronavirus pandemic. While the bank successfully placed benchmark bonds on the capital market at the start of the year and from June onwards, the market was regularly open for private placements. The LBBW Group's sources of funding are very stable in terms of volume and diversification.

Funding requirements and counterbalancing capacity broke down as follows as at 30 June 2020:

Overview of funding requirements and counterbalancing capacity

	3 months		12 months	
EUR billion	**30 June 2020**	**31 Dec. 2019**	**30 June 2020**	**31 Dec. 2019**
Funding requirement from the business portfolio (deterministic cash flow)[1]	– 14.8	5.2	– 18.1	– 0.2
Funding requirement from material call risks (stochastic cash flow)	20.0	16.7	39.3	33.8
Funding potential from free liquidity reserves	15.8	22.8	17.8	29.7
Counterbalancing capacity on the market	49.4	48.5	65.0	64.7
Overcollateralization	*60.1*	*49.3*	*61.7*	*60.8*

1 Some values are negative as liquidity flows from the business portfolio currently exceed the funding requirements over a period of three or twelve months.

The funding requirement from the business portfolio was negative as at the end of the reporting period, as liquidity inflows exceeded the outflows and thus de facto resulted in an investment requirement. In the shorter-term, in particular, this picture is marked by net inflows in EUR (investment requirement), which are offset by funding requirements in key foreign currencies at LBBW (USD and GBP). Counterbalancing capacity was sufficient to compensate for any short-term liquidity outflows and still ensures high overcollateralization over a three and 12-month horizon. The surplus from cover registers (Deckungsregister) not required to preserve the covered bond rating is applied towards the free liquidity reserves in the 12- month view. Funding potential in the market is approximated on the basis of historical data on the unsecured funds actually raised.

The intended stress resistance level was maintained throughout the first half of 2020. The liquidity risk stress scenarios rating downgrade, financial market crisis and market crisis with downgrade, structured in accordance with the guidelines of MaRisk (BTR 3.2), show that the remaining counterbalancing capacity via the market, plus the free liquidity buffer, always comfortably exceeded the potential funding requirements under stress scenarios for this period.

Results of the economic stress scenarios

	Funding requirements (3 months)		Funding potential (3 months)	
EUR billion	30 June 2020	31 Dec. 2019	30 June 2020	31 Dec. 2019
Rating downgrade scenario	9.1	25.8	36.3	45.8
Financial market crisis scenario	9.8	26.6	50.6	58.8
Combined scenario of market crisis with downgrade	10.2	27.1	45.6	54.0

The required minimum of 100% for the European liquidity coverage ratio (LCR) was complied with. The Group's LCR was 142.3% as at 30 June 2020 (31 December 2019: 123.6%). LBBW has prepared for the net stable funding ratio (NSFR) requirements applicable from 2021 onwards. This key figure is frequently monitored and is already met.

At the time of preparing this report, it is not yet possible to estimate the medium to long-term impact of current developments in the coronavirus pandemic on LBBW's liquidity situation. Deposit holdings have increased since the start of the year and since the beginning of the crisis and changes in sources of call risks from deposit holdings and credit line commitments, which are monitored on a daily basis, remained within the ranges seen in 2019.

Operational risks

Risk situation of the LBBW Group

The comments on the risk situation as at the end of 2019, in particular in connection with the legal risks arising from customer transactions involving complex derivatives and developments in consumer protection law in addition to the partial application of principles developed for consumers to commercial clients, continue to apply. Due to the ongoing development of banking case law, the banking landscape will continue to face legal risks. LBBW takes this into account by monitoring the legal situation on an ongoing basis. On the basis of current knowledge, adequate provision has been made to cover any resulting legal risks.

As at 30 June 2020, there are still tax law risks concerning the requirements for deducting capital gains tax. The Federal Ministry of Finance recently passed an administrative order on these issues. An updated legal opinion from the tax authorities with retrospective effects, new proclamations or a detailed review on the basis of new case law cannot be ruled out.

The LBBW Group's processes and instruments for identifying, collecting and managing operational risks are reviewed regarding new regulatory requirements when these are published and are modified where necessary. Appropriate resources are used to take new requirements into account and to collect the necessary data. In addition, various committees regularly share information.

IT risk management continues to focus on risks arising from cyberspace threats in particular. These risks are addressed with risk-mitigating measures aimed at prevention, detection and response.

With regard to the impact of the corona pandemic on LBBW, the existing crisis committees, the »crisis response team« and the »emergency center« were activated at the end of the first quarter of 2020 to manage operational risks.

The work of the crisis committees can be divided into three phases.

- Phase 1 (March – April 2020): Active crisis management, focus on ad-hoc decisions, communication and ensuring IT infrastructure, employee protection
- Phase 2 (May – June 2020): Creating normal working conditions during corona pandemic, corona policy adopted laying out key regulations on working models, use of space and continuation of hygiene and safeguarding measures, collaboration tools expanded
- Phase 3 (planned for July 2020 onwards): Active monitoring and continuity, regular analysis of working from home rates, region-specific special circumstances and process vigor

Other material risks

Regarding the other material risks, namely

- Investment risks
- Real estate risks
- Development risks
- Reputation risks
- Business risks
- Model risk

the statements made in the risk report in the LBBW Group's combined management report for 2019 continue to apply. A strategic equity investment was sold during the reporting period. This considerably lowered the investment risk. In future, the pension risk will no longer be regarded as material as the interest-dependent elements are included in the market price risk. There were no further material changes in the first half of 2020.

Forecast and opportunity report

Anticipated economic performance

The second half of the year is also likely to be shaped predominantly by the coronavirus pandemic and its economic impact. Germany's economy is expected to pick up again once many of the restrictions are lifted. Nonetheless, we assume that the repercussions of the lockdown in the spring will still be far from resolved. GDP in Germany for 2020 thus looks set to decline by 7% against the previous year. Shored up by ongoing expansionary monetary and fiscal policy, the economy should continue to recover in the year ahead. We expect to see GDP growth of 5.0% in Germany in 2021. According to forecasts by the EU Commission from 7 July, the 2020 economic downturn will be more severe in the eurozone than in Germany, as France, Italy and Spain look set to see a double-digit decline in GDP. Based on this, we are anticipating a 8.3% downturn this year and a recovery of 7.0% in the following year. In the US, we expect GDP to fall by 8.0% this year and rise by 5.5% in 2021.Our estimates indicate that the Chinese economy will grow this year, albeit only by 1.0%.. GDP is then likely to pick up by 7.5% in the following year.

These forecasts are subject to considerable uncertainty. They can be affected considerably by how the coronavirus pandemic develops, especially if there is a second wave. By contrast, a vaccine rapidly being made available could mean a significantly faster return to normality.

Central banks in the eurozone and in the US are unlikely to lower their key interest rates further. With the deposit rate at –0.50% and the main refinancing rate at 0.00%, we believe there is no more room for maneuver for the time being. The US Federal Reserve is likely to leave its Fed Funds Target Range at 0.00% – 0.25%. Meanwhile, both central banks are continuing to buy bonds. At present, the ECB is planning to purchase EUR 1,350 billion in eurozone bonds by mid-2021, primarily government bonds.

Alongside the COVID-19 pandemic, which is expected to take center stage, political risks will likely remain a key issue on financial markets. No compromise has yet been reached between the EU and the UK regarding bilateral trade relations once the Brexit transition period comes to an end at the close of 2020. The US, meanwhile, is approaching the next presidential elections. Incumbent Donald Trump is trailing his opponent Joseph Biden in the polls and may be tempted to use controversial political decisions as a way of turning the tide in his favor. Finally, relations between the US and China remain an issue, with the two countries at loggerheads over many policy areas.

Given this, at the end of 2020 we expect to see a slight rise in yields to –0.40% for 10-year German government bonds and to +0.60% for US Treasuries with the same maturity. The EUR/USD exchange rate should increase to USD 1.19 to the euro. In terms of shares, we expect the DAX to close the year at 13,000 points and the Dow Jones to close at 27,500 points.

Industry and competitive situation

The German banking system looks set to be hit hard by the global economic downturn caused by COVID-19. Varied regulatory and, in particular, fiscal support aimed at companies that was agreed in the first half of the year will help absorb the effects for the local banking economy. Although the consequences of the coronavirus pandemic remain difficult to quantify, LBBW believes that there are already signs of certain negative trends throughout the sector. For example, our assessments show that allowances for losses on loans and securities will rise markedly at many banks, straining their profits accordingly. Based on data from the European Banking Authority (EBA), relatively weak profitability already represents the Achilles' heel of German banks when compared to the European average. LBBW also believes that equity ratios will come under pressure, partly due to higher lending and the higher risk-weighted assets that this entails. In the medium term, asset quality is expected to decline, prompting more actual loan defaults.

Regardless of these pressures, LBBW still considers the German banking system fundamentally sound in the European environment. Nonetheless, we believe that the coronavirus pandemic will further fuel competitive pressure in what is already a relatively strongly fragmented German banking market. This relates first and foremost to margins and costs and therefore technological change, which is being accelerated by the outbreak of the coronavirus pandemic and requires increasing IT investments with interest rates remaining low. As a consequence of this, cyber risks are likely to become increasingly relevant for banks. Boosting profitability in the long run and adjusting business models thus remains a major challenge for the banking sector.

Company forecast

General conditions

The statements made by LBBW in the company forecast in the 2019 annual report regarding its projections for the 2020 financial year were based on the planning prepared at the end of 2019.

When LBBW's 2019 annual report was published at the end of March 2020, in the opinion of the bank the risks of the coronavirus pandemic could not yet be reliably forecasted and so they could not be taken fully into account in the guidance. According to the ifo institute, the global spread of the novel coronavirus at the start of 2020 ultimately led to a shock on an unprecedented scale in recent history. The knock-on effects of the lockdown are likely to leave their mark for a long time to come. Nonetheless, LBBW assumes that there will be no need for another nationwide lockdown and so the economy should gradually pick up again in the second half of 2020. However, catch-up efforts could be hampered by supply disruptions and new, regional outbreaks of the virus.

Outlook for LBBW

In the opinion of the bank LBBW's business model as a medium-sized universal bank has proven to be solid and resilient in the face of crisis. LBBW's focus for the rest of the financial year will now be on the continuing development of the strategic cornerstones – especially as regards capital and process efficiency and risk management – on the basis of lessons learned from the crisis and on establishing new ways of working.

LBBW, as well as the economy as a whole, is facing exceptionally high uncertainty on account of the coronavirus pandemic. It is still difficult to issue a reliable earnings guidance for the end of 2020. At Group level and in accordance with IFRS, LBBW expects profit/loss before tax to be into positive figures, although this is likely to fall short of the original planning. Expected developments, chiefly as regards allowances for losses on loans and securities, were included in the guidance for the end of 2020. Based on the assumptions described above, LBBW nonetheless assumes that operating business performance will be largely stable and that income will be almost at the planning's level. Thanks in particular to the use of various cost levers, expenses should remain lower than planned despite a higher bank levy, meaning that the cost/income ratio is even likely to be marginally lower than planned at the end of the year. Nevertheless, the decisive factor for earnings in 2020 financial year will be allowances for losses on loans and securities, which LBBW expects to be considerably higher than planned at the end of the year on account of the crisis and individual events.

In our opinion, LBBW acted as a strong partner to its customers in the first phase of the coronavirus crisis and will continue to ensure sufficient liquidity and credit for them in the future. Higher financial requirements on the part of customers and stronger development business should mean that total assets are marginal above planning at the end of the year. Due to changes in total assets and expected rating changes at customers, the LBBW Group's risk weighted assets under CRR/CRD IV should be moderately above planning.

In line with the anticipated performance of risk weighted assets and market strain caused by the coronavirus, the common equity Tier 1 capital ratio (»fully loaded«) at the end of 2020 looks set to be slightly below planning. Nonetheless, in the opinion of the bank LBBW continues to enjoy solid capitalization. As expected, the common equity Tier 1 (CET 1) capital ratio is to remain well in excess of the CRR/CRD IV minimum requirements and substantially above the European Central Bank's requirement for 2020 of 8.98% (lowered on account of COVID-19), which also includes the Pillar 2 requirements, the capital conservation buffer (Section 10 c KWG) and the capital buffer for other systemically important institutions (Section 10 g KWG).

In terms of liquidity, LBBW's liquidity coverage ratio is likely to be substantially above the minimum target of 100% by the end of 2020. By the end of 2020, LBBW should also have slightly exceeded the future minimum net stable funding ratio target of 100%.

In line with the increase in total assets anticipated, the leverage ratio should be moderately below planning at the end of the year. Nevertheless, it should remain significantly higher than the minimum level of 3% stipulated by the Basel Committee.

Compared with original planning, LBBW expects to see the following developments for its operating segments in the 2020 financial year:

In the ***Corporate Customers*** segment, LBBW assumes that operating income from customer business will be above planning for the end of 2020. The segment should benefit in part from COVID-19-related hedging business and loan agreements. Slightly lower-than-planned administrative expenses will also have a positive impact. However, LBBW is also expecting allowances for losses on loans and securities in the Corporate Customers segment to be well in excess of planning at the end of the year on account of the crisis and individual events, which could result in negative segment earnings overall. Assets should be slightly higher than planning at the end of 2020 as a result of helping corporate customers meet their increased financing requirements in light of the crisis and in connection with high demand for development loans. In line with this development and given the re-ratings expected, risk weighted assets at the end of 2020 should also be moderately higher than planning.

For the ***Real Estate/Project Finance*** segment – on account of the higher number of exposures terminated at the end of 2019 – LBBW expects to see operating income for the end of 2020 at a marginally lower level than planned and anticipates moderately lower-than-planned assets. Long-term cost savings measures implemented as a result of COVID-19, which should keep administrative expenses at the end of the year marginally lower than planned, will create headwind. Accordingly, the cost/income ratio at the end of the year should also be only insignificantly higher than planned. Despite the sustained high quality of the lending portfolio overall – demonstrated by customer ratings predominantly in the investment grade range – LBBW expects allowances for losses on loans and securities to be significantly higher than planned at the end of 2020 due to individual events. With regard to risk weighted assets, LBBW believes these will be – as a result of re-rating effects in H2 – moderately higher than originally planned at the end of the year.

LBBW expects income from customer business in the ***Capital Markets Business*** segment in the 2020 financial year to be higher than the previous year figure and only marginally below planning. In our view, factors contributing to this development include above all the customer-oriented line-up of the Capital Markets Business and especially rising demand for hedging products in a volatile market environment. In addition, it is boosted by the takeover of BayernLB’s interest, currency and commodities management business for corporate customers of savings banks. In terms of expenses, administrative expenses should be lowered to a level marginal below planning. The cost/income ratio is thus likely to remain only slightly below planning as at the end of 2020.

In the ***Private Customers/Savings Banks*** segment, moderate income losses attributable to temporary branch closures and reticence on the part of customers in the wake of the coronavirus crisis should be partially offset in the 2020 financial year by marginally lower-than-planned administrative expenses, putting the cost/income ratio almost on par with planning as at the end of the year. Driven by increased demand for development loans, segment assets should slightly outperform planning at the end of the year, with risk weighted assets falling to a level slight short of planning at this time.

The 2019 Forecast and opportunity report described opportunities and risks for business performance in 2020. These are still valid for the statements made regarding the rest of the 2020 financial year but could be amplified on account of the crisis.

The risks related to the coronavirus crisis that could not be reliably forecasted at the time of preparing the annual report have since had an impact on LBBW's expectations for the 2020 financial year and – where these can be estimated – are taken into account in the evaluations in the company forecast detailed here. At present, in the opinion of the bank it is unlikely that these risks will be further inflamed following a second lockdown, but this cannot be ruled out entirely over the course of the financial year.

Other risks described in the company forecast in the 2019 annual report in connection with increasing competition, stricter regulatory requirements, membership in the bank-related guarantee fund of the Landesbanks and the »European bank levy« still apply.

The opportunities described at the end of 2019 as a result of an improvement to the general conditions listed under risks are still generally applicable although, in line with current developments and expectations, a rapid increase in yields is not anticipated.

03

Condensed consolidated interim financial statements

Condensed consolidated interim financial statements

Income statement

for the period 1 January to 30 June 2020

EUR million	Notes	1 Jan. – 30 June 2020	1 Jan. – 30 June 2019[1]
Net interest income[2]	5	872	811
Interest income and current income from equity instruments		6,350	6,943
of which negative interest income		– 96	– 128
Interest expenses and current expenses from equity instruments		– 5,477	– 6,132
of which positive interest expenses		116	106
Net fee and commission income	6	274	279
Fee and commission income		344	343
Fee and commission expenses		– 70	– 64
Net gains/losses on remeasurement and disposal	7	– 182	154
of which allowances for losses on loans and securities		– 281	– 63
Other operating income/expenses	8	90	52
Administrative expenses	9	– 834	– 864
Expenses for bank levy and deposit guarantee system	10	– 118	– 102
Net income/expenses from restructuring	*11*	1	0
Consolidated profit/loss before tax		*103*	*329*
Income taxes	12	– 51	– 103
Net consolidated profit/loss		*52*	*226*
of which attributable to shareholders after tax		53	226

1 Restatement of prior year amounts (see Note 2).
2 Information on the overview of interest income and interest expenses for the categories »financial assets measured at amortized cost« and »financial instruments measured at fair value through other comprehensive income« can be found in Note 4.

Statement of comprehensive income

for the period 1 January to 30 June 2020

EUR million	Notes	1 Jan. – 30 June 2020	1 Jan. – 30 June 2019[1]
Net consolidated profit/loss		*52*	*226*
Items that will not be transferred subsequently to the income statement			
Retained earnings	29	138	– 218
Actuarial gains/losses before tax		– 18	– 315
Realized gains/losses from the sale of equity instruments		152	0
Income taxes	12	3	97
Measurement gains/losses from own credit rating	29	97	– 3
Measurement gains/losses from own credit rating		140	– 4
Income taxes	12	– 43	1
Measurement gains/losses from equity instruments (financial assets measured at fair value through other comprehensive income)	29	– 228	7
Measurement gains/losses before tax		– 87	10
Transfer to realized gains/losses from the sale of equity instruments		– 152	0
Income taxes		11	– 3
Items that will be transferred subsequently to the income statement when specific conditions are met			
Measurement gains/losses from debt instruments (financial assets measured at fair value through other comprehensive income)	29	– 61	45
Measurement gains/losses before tax		– 104	106
Change in allowances for losses on loans and securities		1	1
Transferred to income statement		10	– 43
Income taxes	12	32	– 19
Currency translation differences	29	– 7	3
Changes before tax		– 7	3
Net consolidated profit/loss in equity		*– 61*	*– 166*
Net consolidated total comprehensive income		*– 9*	*60*
of which attributable to shareholders after tax		– 8	59

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

Balance sheet

as at 30 June 2020

Assets

EUR million	Notes	30 June 2020	31 Dec. 2019[1]	1 Jan. 2019[1]
Cash and cash equivalents	13	33,009	18,331	24,721
Financial assets measured at amortized cost	14	173,005	167,202	157,127
Loans and advances to banks		56,263	55,801	46,749
Loans and advances to customers		115,794	110,320	109,231
Debentures and other fixed-income securities		948	1,082	1,146
Financial assets measured at fair value through other comprehensive income	15	34,260	30,245	23,743
Financial assets designated at fair value	16	1,168	1,170	1,207
Financial assets mandatorily measured at fair value through profit or loss	17	40,829	33,013	28,857
Shares in investments accounted for using the equity method	18	259	265	266
Portfolio hedge adjustment attributable to assets		1,136	839	569
Non-current assets and disposal groups held for sale	19	0	65	24
Intangible assets	20	184	198	224
Investment property	21	669	655	697
Property and equipment	22	840	814	463
Current income tax assets		141	126	142
Deferred income tax assets		1,075	1,089	1,140
Other assets	23	3,134	2,619	2,017
Total assets		*289,709*	*256,630*	*241,197*

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

Equity and liabilities

EUR million	Notes	30 June 2020	31 Dec. 2019[1]	1 Jan. 2019[1]
Financial liabilities measured at amortized cost	24	231,506	201,890	190,388
Deposits from banks		86,952	66,633	63,585
Deposits from customers		95,111	90,319	82,481
Securitized liabilities		43,637	38,815	38,827
Subordinated capital		5,807	6,123	5,495
Financial liabilities designated at fair value	25	6,579	6,757	7,613
Financial liabilities mandatorily measured at fair value through profit or loss	26	30,158	26,959	24,478
Portfolio hedge adjustment attributable to liabilities		743	486	297
Provisions	27	4,373	4,410	3,916
Liabilities from disposal groups	19	0	4	0
Current income tax liabilities		42	55	32
Deferred income tax liabilities		31	33	27
Other liabilities	28	2,377	2,113	1,283
Equity	*29*	*13,901*	*13,923*	*13,163*
Share capital		3,484	3,484	3,484
Capital reserve		8,240	8,240	8,240
Retained earnings		1,394	824	960
Other comprehensive income		– 48	152	44
Net consolidated profit/loss		53	445	413
Shareholders' equity		*13,123*	*13,146*	*13,142*
Additional equity components		745	745	0
Equity attributable to non-controlling interests		33	32	20
Total equity and liabilities		*289,709*	*256,630*	*241,197*

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

Statement of changes in equity

for the period 1 January to 30 June 2020

EUR million	Share capital	Capital reserve	Retained earnings[1,2]	Valuation reserve for equity instruments	Valuation reserve for debt instruments[1]	Measurement gains/losses from investments accounted for using the equity method
Equity as at 31 December 2018	*3,484*	*8,240*	*960*	*211*	*- 207*	*0*
IFRS 16 effects of first-time adoption	0	0	- 14	0	0	0
Restatement of prior year amounts	0	0	1	0	- 1	0
Equity as at 1 January 2019	*3,484*	*8,240*	*947*	*211*	*- 207*	*0*
Allocation to retained earnings	0	0	413	0	0	0
Distribution to shareholders	0	0	- 250	0	0	0
Net consolidated profit/loss in equity	0	0	- 218	7	45	0
Net consolidated profit/loss	0	0	0	0	0	0
Net consolidated total comprehensive income	0	0	- 218	7	45	0
Other changes in equity	*0*	*0*	*0*	*0*	*0*	*0*
Equity as at 30 June 2019	*3,484*	*8,240*	*893*	*218*	*- 163*	*0*
Net consolidated profit/loss in equity	0	0	- 67	- 33	96	- 1
Net consolidated profit/loss	0	0	0	0	0	0
Net consolidated total comprehensive income	0	0	- 67	- 33	96	- 1
Other changes in equity	0	0	0	0	0	0
Equity as at 31 December 2019	*3,484*	*8,240*	*826*	*185*	*- 67*	*- 1*
Equity as at 1 January 2020	*3,484*	*8,240*	*826*	*185*	*- 67*	*- 1*
Transfer to retained earnings[2]	0	0	445	0	0	0
Net consolidated profit/loss in equity	0	0	138	- 228	- 61	0
Net consolidated profit/loss	0	0	0	0	0	0
Net consolidated total comprehensive income	*0*	*0*	*138*	*- 228*	*- 61*	*0*
Servicing of additional equity components	*0*	*0*	*- 13*	*0*	*0*	*0*
Other changes in equity	0	0	- 1	0	0	0
Equity as at 30 June 2020	*3,484*	*8,240*	*1,394*	*- 43*	*- 128*	*- 1*

1 Restatement of prior year amounts (see Note 2).
2 Profit and loss carryforwards from prior periods are also recognized under »Retained earnings«. No resolution has yet been passed regarding the appropriation of net profit in 2019 for LBBW (Bank).

Measurement gains/losses from own credit rating	Currency translation reserve	Net consolidated profit/loss	Shareholders' equity[1]	Additional equity components	Equity attributable to non-controlling interests	Total[1]
16	*25*	*413*	*13,142*	*0*	*20*	*13,163*
0	0	0	- 14	0	0	- 14
0	0	0	0	0	0	0
16	*25*	*413*	*13,129*	*0*	*20*	*13,149*
0	0	- 413	0	0	0	0
0	0	0	- 250	0	0	- 250
- 3	3	0	- 166	0	0	- 166
0	0	226	226	0	0	226
- 3	3	226	58	0	0	60
0	*0*	*0*	*0*	*0*	*11*	*11*
14	*27*	*226*	*12,938*	*0*	*32*	*12,970*
- 10	3	0	- 11	0	0	- 11
0	0	219	219	0	1	220
- 10	3	219	208	0	1	209
0	0	0	0	745	0	745
4	*30*	*445*	*13,146*	*745*	*32*	*13,923*
4	*30*	*445*	*13,146*	*745*	*32*	*13,923*
0	0	- 445	0	0	0	0
97	- 7	0	- 61	0	0	- 61
0	0	53	53	0	0	52
97	*- 7*	*53*	*- 8*	*0*	*0*	*- 9*
0	*0*	*0*	*- 13*	*0*	*0*	*- 13*
0	0	0	- 1	0	1	0
101	*24*	*53*	*13,123*	*745*	*33*	*13,901*

Condensed cash flow statement

for the period 1 January to 30 June 2020

EUR million	Notes	1 Jan. – 30 June 2020	1 Jan. – 30 June 2019[1]
Cash and cash equivalents at the beginning of the period	*12*	*18,331*	*24,721*
Cash flow from operating activities		14,757	*– 8,254*
Cash flow from investing activities		279	*– 22*
Cash flow from financing activities		– 366	*330*
Changes to cash and cash equivalents owing to exchange rates, basis of consolidation and measurement		8	*– 1*
Cash and cash equivalents at the end of the period	*12*	*33,009*	*16,774*

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

The increase in cash and cash equivalents at the end of the period essentially stems from the rise in central bank balances due to participating in the ECB's tender program (TLTROIII).

In addition to the cash change in equity (dividend payment, issuing and servicing additional equity components), cash flow from financing activities includes the cash flows from the silent partners' contributions and additional subordinated capital. During the period under review, the volume of subordinated capital held decreased by EUR 316 million from the previous year. In addition to a cash reduction of EUR 323 million, the change resulted from measurement effects of EUR 43 million and an effect from present value accounting of EUR –31 million. In addition, changes in exchange rates of EUR –6 million and other changes of EUR 1 million changed the amount of subordinated capital.

As part of a methodological refinement, accrued interest for capital contributions by silent partners was included in accrued interest for subordinated capital. This adjustment affects the comparative figures for the previous year with EUR –23 million in the cash flow from financing activities and EUR 23 million in the cash flow from operating activities.

Selected notes to the consolidated interim financial statements

for the first half of the 2020 financial year

Basis of Group accounting

Landesbank Baden-Württemberg (LBBW (Bank)), as the parent company of the Group (LBBW), is a public law institution (rechtsfähige Anstalt des öffentlichen Rechts) with registered offices in Stuttgart, Karlsruhe, Mannheim and Mainz. The commercial register numbers at the responsible district court are as follows: district court of Stuttgart HRA 12704, district court of Mannheim HRA 104440 (for Karlsruhe) and HRA 4356 (for Mannheim) and district court of Mainz HRA 40687.

LBBW offers the full range of products and services throughout Germany that a medium-sized universal bank provides. In the state capital Stuttgart, BW-Bank fulfills the role of a savings bank as LBBW's customer bank. LBBW also assists its corporate customers and those of the savings banks in their international operations. Subsidiaries specializing in specific areas of business such as leases, factoring, asset management, real estate or equity finance diversify and supplement LBBW's portfolio of services within the Group.

The consolidated interim financial statements of LBBW as at 30 June 2020 were prepared in accordance with Section 115 of the Wertpapierhandelsgesetz (WpHG – German Securities Trading Act) in conjunction with Section 117 no. 2 WpHG pursuant to the International Financial Reporting Standards (IFRS) as adopted in the European Union. The standards and interpretations published at the time of preparation of the financial statements, adopted by the European Union and relevant and effective for the Group, are authoritative. In particular, the requirements set out in IAS 34 Interim Financial Reporting were taken into account.

Accounting policies

1. Accounting principles

The consolidated interim financial statements as at 30 June 2020 do not contain all the information and disclosures required of the consolidated financial statements and should therefore be read in conjunction with the consolidated financial statements as at 31 December 2019.

The consolidated interim financial statements are based on the going concern principle. Financial statements at LBBW are prepared using uniform accounting policies across the Group. These were applied consistently to the reporting periods shown, unless stated otherwise. The interim financial statements of the fully consolidated companies or investments accounted for using the equity method are prepared as at the balance sheet date of the consolidated interim financial statements of LBBW.

The functional currency and the reporting currency of LBBW is the euro (EUR). The amounts in these consolidated interim financial statements are generally rounded to EUR millions in accordance with commercial principles. This may result in minor aggregation differences, though these do not have any adverse effect on the quality of reporting.

2. Changes and estimates

The section below provides an explanation of IFRS relevant to LBBW that are to be applied for the first time in the financial year or that are to be applied in the future.

IFRS applied for the first time

The following IFRS are to be applied for the first time in the 2020 financial year. These have no material effect on LBBW's consolidated financial statements.

- Amendments to References to the Conceptual Framework in IFRS
- Definition of a Business – amendments to IFRS 3
- Definition of Material – amendments to IAS 1 and IAS 8

IFRS to be applied in the future

The following IFRS are not yet effective, no or only immaterial effects are expected and LBBW does not intend to apply them early on a voluntary basis:

Title of IFRS	First-time adoption expected in	Endorsement (yes/no)	IFRS subject matter
Covid– 19-Related Rent Concessions – Amendments to IFRS 16	H2 2020	No	This amendment provides relief to lessees when accounting for rent concessions during COVID– 19.
Extension of the Temporary Exemption from Applying IFRS 9 – Amendments to IFRS 4	2021 financial year	No	The amendment to IFRS 4 postpones the mandatory first-time adoption of IFRS 9 from 1 January 2021 to 1 January 2023.
Reference to the Conceptual Framework – Amendments to IFRS 3	2022 financial year	No	These amendments relate to a reference to the IFRS conceptual framework.
Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16	2022 financial year	No	Under this amendment, proceeds generated when the property and equipment is not yet ready for use are recognized directly in profit or loss.
Onerous Contracts – Cost of Fulfilling a Contract – Amendments to IAS 37	2022 financial year	No	This amendment specifies the costs to be included when assessing whether a contract is onerous.
Annual Improvements to IFRS 2018 – 2020 – Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41	2022 financial year	No	These amendments establish minor changes to the standards.
Classification of Liabilities as Current or Non-Current – Amendments to IAS 1	2023 financial year	No	This amendment updates the Standard IAS 1 by clarifying in which cases an existing right to defer settlement of liabilities results in this being classified as »non-current« (more than 12 months).
IFRS 17 »Insurance Contracts« and Amendments to IFRS 17	2023 financial year	No	This standard includes the new provisions for the recognition of insurance contracts and replaces the previous IFRS 4.

Adjustments

The following changes in estimates were applied prospectively in accordance with IAS 8.39 in the first half of the financial year:

- To determine the calculatory interest rate for measuring pension and other obligations to employees under IAS 19, LBBW's external appraiser uses an established method to determine interest rates. An alternative way of determining the calculatory interest rate was developed in the 2020 financial year that takes account of the high volatility on capital markets observed during the coronavirus crisis. Applying this alternative interest rate model results in a two basis points increase in the calculatory interest rate as at the reporting date. In accordance with the available sensitivities, this results in an effect of EUR 8.0 million after deferred taxes, which is recognized in the actuarial result within equity through other comprehensive income.

The impact of the changes in estimates on future reporting periods that were implemented in the year under review are in particular dependent on the development of market parameters and expectations in the future. A quantitative determination of the effects on future reporting periods is therefore only possible on the basis of models and to a limited extent.

The following adjustments were made retrospectively in accordance with IAS 8.42 in the first half of the financial year:

- The correction of the CVA/DVA simulation model to structured interest derivatives in connection with state bonds, which had already been adjusted as at 31 December 2019, led to a retrospective EUR –7.5 million reduction in equity and a EUR –10.8 million decline in trading assets as at 30 June 2019. Deferred income tax assets rose by EUR 3.3 million. Net trading gains/losses also picked up by EUR 13.2 million while deferred income tax expenses decreased by EUR –4.0 million.
- Operating liquidity management contains a portfolio with various sub-portfolios, which was assigned to the IFRS 9 »Sell« business model. However, individual portfolios effectively serve primarily to manage liquidity. Treasury activities for money market and repo transactions were restructured in 2017. At this time, the portfolios would have been split depending on their intended purpose and it would have been necessary to allocate the portfolios in question to the IFRS 9 »Hold to collect and sell« business model. The retroactive correction of the business model allocation reduced trading assets by EUR –922.0 million as at 1 January 2019. Debt instruments measured at fair value through other comprehensive income rose by the same amount. Within equity, profit carried forward (EUR 0.8 million) was offset by the valuation reserves (EUR –0.8 million). Net trading gains/losses fell by EUR –2.9 million and deferred tax expense by EUR 0.9 million as at 30 June 2019 due to the retroactive adjustment. This effect was countered by a further EUR 2.0 million upturn in the valuation reserves in comparison to 1 January 2019. Trading assets climbed by EUR 18.6 million in H1. This was offset by a decrease of the same amount in debt instruments measured at fair value through other comprehensive income. Net trading gains/losses rose by EUR 3.0 million as at 31 December 2019, whereas net gains/losses on debt instruments measured at fair value through other comprehensive income decreased by EUR –0.5 million. In 2019 as a whole, deferred tax expenses declined by EUR –0.7 million and valuation reserves moved down by EUR –1.7 million. Trading assets declined by EUR –675.1 million to a total of EUR –1,597.0 million in 2019, with debt instruments measured at fair value through other comprehensive income increasing by the same amount.

3. Basis of consolidation

In addition to LBBW (Bank) as the parent company, 95 subsidiaries (previous year: 97 subsidiaries) including five structured entities were included in the consolidated interim financial statements.

The subsidiary included in the consolidated financial statements Dritte LBBW US Real Estate GmbH was merged with the subsidiary Zweite LBBW US Real Estate GmbH, which is also included in the consolidated financial statements.

Bahnhofplatz-Gesellschaft Stuttgart AG, another subsidiary included in the consolidated financial statements, was deconsolidated in the reporting period and is to be dissolved during the financial year.

Six joint ventures and five associates (unchanged from the previous year) were accounted for using the equity method in the consolidated financial statements.

Sealink Funding DAC is in liquidation. LBBW no longer has any influence over the company and has no more claims or obligations to the company. It was therefore removed from the basis of consolidation as at 30 June 2020.

A total of 52 subsidiaries (previous year: 55 subsidiaries) were not included in the consolidated interim financial statements because their individual and aggregate influence on the net assets, financial position and results of operations of the LBBW Group is not significant. These are predominantly property and shelf companies.

4. Coronavirus pandemic

The entire global economy was heavily affected by the coronavirus pandemic in the first six months of 2020. This also impacts LBBW's interim financial statements. LBBW examined the effects of the pandemic at various levels for the different areas of the Group and took action accordingly.

In addition to the information in the interim management report, the effects of the pandemic at present are also described in our note on allowances for losses on loans and securities (see Note 30).

Segment reporting

LBBW's segment reporting for the first half of 2020 has been prepared in accordance with the provisions of IFRS 8. Following the »management approach«, segment reporting is therefore based on internal management reporting to the Group's Board of Managing Directors, which, in its function as the chief operating decision-maker, regularly makes decisions about the allocation of resources and the assessment of the performance of the segments on this basis.

Segment definition

The segments presented below are based on the organizational structures, taking into account customer and product responsibilities. Subsidiaries and equity investments are assigned to the individual segments according to their business orientation. There have been no changes to LBBW's segmentation in comparison to 2019. The description of the individual segments can be found in the 2019 Annual Report.

Measurement methods

Segment information is based on LBBW's internal control data, which combine external financial reporting methods and economic measurement methods. The resulting differences in measurement and reporting compared to the IFRS Group figures are presented in the reconciliation statement. LBBW's income and expenses are allocated to the individual segments in which they arise. There is therefore no significant income resulting from transactions between the segments.

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

Besides direct personnel and material expenses, the administrative expenses of a segment include expenses assigned on the basis of intragroup cost allocation.

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

The average restricted capital in the segments is calculated on the basis of calculated risk-weighted assets and an imputed Tier 1 capital backing ratio. Unlike for the Group, a segment's return on equity (RoE) is calculated as the ratio of (annualized) consolidated profit/loss before tax to the maximum planned and average restricted equity in the reporting period.[1]

The segment reporting also took into account the retroactive adjustments to the income statement (regarding IAS 8 – see Note 2).

1 For the definition of consolidated return on equity and the cost/income ratio, see the report on Results of operations, net assets and financial position.

Segment results

1 Jan. – 30 June 2020 EUR million	Corporate Customers	Real Estate/Project Finance	Capital Markets Business	Private Customers/ Savings Banks	Corporate Items/ Reconciliation/ Consolidation	LBBW Group
Net interest income	410	149	177	146	– 9	872
Net fee and commission income	89	10	73	122	– 20	274
Net gains/losses on remeasurement and disposal	– 230	– 8	122	– 1	– 64	– 182
of which allowances for losses on loans and securities[1]	– 233	– 4	1	1	– 45	– 280
Other operating income/expenses	– 1	45	1	– 4	49	90
Total operating income/expenses	*268*	*196*	*372*	*263*	*– 45*	*1,055*
Administrative expenses	– 295	– 82	– 221	– 244	7	– 834
Expenses for bank levy and deposit guarantee system	– 16	– 9	– 27	0	– 66	– 118
Net income/expenses from restructuring	0	0	0	0	1	1
Consolidated profit/loss before tax	*– 43*	*106*	*125*	*19*	*– 103*	*103*
Income taxes						– 51
Net consolidated profit/loss						*52*
Segment assets (EUR billion)	62.0	31.0	155.0	36.1	5.6	289.7
Risk-weighted assets[2] (EUR billion)	38.8	13.9	17.5	8.1	5.5	83.8
Tied-up equity[2] (EUR billion)	4.9	1.7	2.4	1.1	3.5	13.6
RoE (in %)	<0	11.0	10.3	3.5		1.5
CIR (in %)	62.2	45.0	66.5	93.3		71.2

1 Relates to the category »Financial assets measured at amortized cost«. In addition, the allowances for losses on loans and securities for »financial assets measured at fair value through other comprehensive income« is attributable to a net addition of EUR –1 million.
2 In accordance with CRR/CRD IV.

1 Jan. – 30 June 2019 EUR million	Corporate Customers	Real Estate/Project Finance	Capital Markets Business[1]	Private Customers/ Savings Banks	Corporate Items/ Reconciliation/ Consolidation	LBBW Group[1]
Net interest income	394	154	97	155	11	811
Net fee and commission income	84	11	67	120	– 4	279
Net gains/losses on remeasurement and disposal	– 13	– 11	193	– 13	– 3	154
of which allowances for losses on loans and securities[2]	– 39	– 11	1	– 16	3	– 62
Other operating income/expenses	4	44	– 7	5	6	52
Total operating income/expenses	*469*	*197*	*351*	*268*	*10*	*1,296*
Administrative expenses	– 294	– 75	– 227	– 255	– 13	– 864
Expenses for bank levy and deposit guarantee system	– 15	– 7	– 23	– 2	– 56	– 102
Net income/expenses from restructuring	0	0	0	0	0	0
Consolidated profit/loss before tax	*159*	*116*	*101*	*11*	*– 59*	*329*
Income taxes						– 103
Net consolidated profit/loss						*226*
Segment assets (EUR billion)	62.4	28.7	132.6	34.2	7.2	265.1
Risk-weighted assets[3] (EUR billion)	37.5	13.0	15.9	8.2	7.8	82.2
Tied-up equity[3] (EUR billion)	4.8	1.7	2.0	1.1	3.3	12.8
RoE (in %)	6.7	13.6	8.1	2.1		5.1
CIR (in %)	60.9	39.2	71.2	90.6		71.2

1 Restatement of prior year amounts (see Note 2).
2 Relates to the category »Financial assets measured at amortized cost«. In addition, the allowances for losses on loans and securities for »financial assets measured at fair value through other comprehensive income« is attributable to a net addition of EUR –1 million.
3 In accordance with CRR/CRD IV.

Details on Corporate Items, Reconciliation and Consolidation

EUR million	Corporate Items		Reconciliation/Consolidation		Corporate Items/Reconciliation/Consolidation	
	1 Jan. – 30 June 2020	1 Jan. – 30 June 2019	1 Jan. – 30 June 2020	1 Jan. – 30 June 2019	1 Jan. – 30 June 2020	1 Jan. – 30 June 2019
Net interest income	– 7	11	– 2	– 1	– 9	11
Net fee and commission income	– 6	– 5	– 14	1	– 20	– 4
Net gains/losses on remeasurement and disposal	– 52	1	– 13	– 4	– 64	– 3
of which allowances for losses on loans and securities[1]	– 45	3	0	0	– 45	3
Other operating income/expenses	49	6	0	0	49	6
Total operating income/expenses	*– 16*	*14*	*– 29*	*– 4*	*– 45*	*10*
Administrative expenses	7	– 13	0	0	7	– 13
Expenses for bank levy and deposit guarantee system	– 66	– 56	0	0	– 66	– 56
Net income/expenses from restructuring	1	0	0	0	1	0
Consolidated profit/loss before tax	*– 74*	*– 55*	*– 29*	*– 4*	*– 103*	*– 59*
Segment assets (EUR billion)	6.1	6.8	– 0.5	0.4	5.6	7.2
Risk-weighted assets[2] (EUR billion)	5.8	8.1	– 0.3	– 0.4	5.5	7.8
Tied-up equity[2] (EUR billion)	3.6	3.3	0.0	0.0	3.5	3.3

1 Relates to the category »Financial assets measured at amortized cost«. In addition, the allowances for losses on loans and securities for »financial assets measured at fair value through other comprehensive income« is attributable to a net addition of EUR –1 million in the current year (previous year: EUR –1 million).
2 In accordance with CRR/CRD IV.

Reconciliation of segment results to the consolidated income statement

In the first half of 2020, the total of »Reconciliation/Consolidation« on the consolidated profit/loss before tax was EUR –29 million (previous year: EUR –4 million). This item partly reflects the fact that net interest income in internal management reporting is calculated on the basis of the market interest method. Differences compared to the income statement are also a result of prior-period net interest income. There are further differences in net gains/losses on remeasurement and disposal from measurements specific to IFRS not included in internal management reporting.

Notes to the income statement

5. Net interest income

EUR million	1 Jan. – 30 June 2020	1 Jan. – 30 June 2019
Interest income and current income from equity instruments	*6,350*	*6,943*
Interest income	6,346	6,917
Trading derivatives	3,798	4,630
Lending and money market transactions	1,208	1,469
Hedging derivatives	816	404
Fixed-income securities and debentures	100	82
Early termination fees[1]	30	26
Leasing business	114	124
Other	281	182
Current income from equity instruments	4	25
Equities and other non-fixed-income securities	2	6
Equity investments and affiliates	2	19
of which negative interest income	– 96	– 128
Interest expenses and current expenses from equity instruments	*– 5,477*	*– 6,132*
Interest expenses	– 5,477	– 6,132
Trading derivatives	– 3,615	– 4,431
Hedging derivatives	– 820	– 381
Deposits	– 370	– 604
Securitized liabilities	– 189	– 348
Leasing business	– 15	– 11
Lease liabilities	– 1	– 1
Subordinated capital	– 125	– 122
Other	– 341	– 234
of which positive interest expenses	116	106
Total	*872*	*811*

1 The offsetting effect from refinancing costs is included in interest expenses.

The rise in this earnings item was driven largely by a marked improvement in profit/loss in Capital Markets Business. Business was also boosted, especially with major corporate customers and for project financing. Ongoing historically low interest rates particularly strained the deposit business, which – despite the increase in volume – saw high pressure on margins on account of the level of competition.

The negative interest income results from reserve holdings with the ECB, banks and institutional customers that exceed the bank's reserve requirement. These customer groups also generate income through positive interest expenses.

Net interest income for the first half of the financial year included EUR 9 million (previous year: EUR 8 million) in connection with government grants under targeted longer-term refinancing operations (TLTRO II/TLTRO III).

The interest income and expenses from financial assets and liabilities not measured at fair value through profit or loss are distributed on an accrual basis and break down as follows:

EUR million	1 Jan. – 30 June 2020	1 Jan. – 30 June 2019
Financial assets measured at amortized cost		
Interest income	1,219	1,467
of which negative interest income	– 94	– 126
Financial assets measured at fair value through other comprehensive income		
Interest income	153	146
of which negative interest income	– 3	– 1
Financial liabilities measured at amortized cost		
Interest expenses	– 611	– 1,014
of which positive interest expenses	116	106

6. Net fee and commission income

EUR million	1 Jan. – 30 June 2020	1 Jan. – 30 June 2019
Fee and commission income	*344*	*343*
Securities and custody business	148	136
Payments business	62	64
Brokerage business	21	24
Loans and guarantees[1]	62	67
Other	51	52
Fee and commission expenses	*– 70*	*– 64*
Securities and custody business	– 40	– 37
Payments business	– 16	– 13
Loans and guarantees[1]	– 4	– 5
Brokerage business	– 3	– 3
Leasing business	– 1	– 1
Other	– 6	– 5
Total	*274*	*279*

1 Includes lending, trustee, guarantee and credit business.

Revenues from contracts with customers within net fee and commission income reflect fees for various services. In the securities and custody business, revenues are generated primarily from custody accounts, the custodian bank function and from securities transactions. Income from securities transactions essentially relates to the function as paying agent and arranger within the context of Schuldscheine and debt securities transactions. One-off services are recognized for a particular point in time, whereas revenues from rolling services such as the custodian bank function are recognized over a period of time. Payments services essentially comprise providing credit and debit cards and processing transfers and debits. Fees for services as part of lending business are recognized once at the time the service is rendered. Services comprise activities within export financing and underwriting, credit and guarantee business. Services are billed either during the year or at the end of the year depending on the type of service provided. Transaction prices are determined on the basis of contractually agreed payments and recognized in the amount at which no reimbursement is anticipated.

Net fee and commission income remained virtually on par with the previous year overall. In this earnings item, securities and custody business performed particularly well, with commission from securities transactions with customers playing an especially large role. By contrast, income from the lending business fell slightly, chiefly reflecting a lower contribution in the guarantee business.

7. Net gains/losses on remeasurement and disposal

Net gains/losses on remeasurement break down as follows:

EUR million	1 Jan. – 30 June 2020	1 Jan. – 30 June 2019
Net income/expenses from investments accounted for using the equity method	0	2
Net gains/losses from financial assets measured at amortized cost	– 281	– 62
Net gains/losses from financial instruments measured at fair value through other comprehensive income	– 11	43
Net gains/losses from financial instruments measured at fair value through profit or loss	110	172
Total	*– 182*	*154*

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

EUR million	1 Jan. – 30 June 2020	1 Jan. – 30 June 2019
Net gains/losses on measurement	*0*	*2*
Net gains/losses from investments in associates	0	1
Current income	2	12
Impairment	– 2	– 10
Net gains/losses from shares in joint ventures	0	0
Current income	0	1
Total	*0*	*2*

Net gains/losses from financial assets measured at amortized cost

This item also includes additions and reversals from provisions for credit risks from loan commitments and financial guarantees covered by the IFRS 9 impairment provisions.

EUR million	1 Jan. – 30 June 2020	1 Jan. – 30 June 2019
Net gains/losses on remeasurement (allowances for losses on loans and securities)	*– 280*	*– 62*
Reversal of/disposals from allowances for losses on loans and securities	146	131
Net gains/losses from provisions for lending business	9	– 10
Recoveries on loans and securities previously written off	8	11
Direct loan write-offs	– 3	– 4
Additions to allowances for losses on loans and securities	– 428	– 188
Other expenses for the lending business	– 12	– 2
Realized gains/losses	*– 1*	*0*
Securities net gains/losses on disposal	– 1	0
Total	*– 281*	*– 62*

Individual cases had a particularly negative impact on allowances for losses on loans and securities, which rose significantly against the previous year. A post-model-adjustment was also made in connection with the coronavirus crisis as the reliability of statistical allowances for losses on loans and securities models, which were parameterized on the basis of multi-year data, is limited in this context (see Note 30).

Measured by the rating classes 1 to 5, LBBW continues to enjoy good portfolio quality.

Net gains/losses from financial instruments measured at fair value through other comprehensive income

EUR million	1 Jan. – 30 June 2020	1 Jan. – 30 June 2019
Net gains/losses on remeasurement (allowances for losses on loans and securities)	*– 1*	*– 1*
Reversal of/disposals from allowances for losses on loans and securities	1	1
Additions to allowances for losses on loans and securities	– 2	– 1
Realized gains/losses	*– 10*	*43*
Net gains/losses on disposal	– 10	43
Total	*– 11*	*43*

The marked downturn in net gains/losses from financial instruments measured at fair value through other comprehensive income was caused in particular by lower contributions from sales of securities as part of managing the LCR portfolio.

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

Interest income and expenses in connection with financial instruments measured at fair value through profit or loss are recognized within net interest income.

EUR million	1 Jan. – 30 June 2020	1 Jan. – 30 June 2019
Net gains/losses from hedging transactions	*1*	*– 24*
Portfolio fair value hedge	0	– 22
of which hedged items	363	360
of which hedging instruments	– 363	– 382
Micro fair value hedge	1	– 2
of which hedged items	– 9	79
of which hedging instruments	10	– 81
Net trading gains/losses	*166*	*185*
Lending business	– 7	13
Equity transactions	– 615	473
Foreign exchange transact	21	– 5
Economic hedging derivatives	120	66
Interest rate transactions	637	– 369
Gains/losses from foreign exchange/commodity products	10	8
Net income/loss from financial instruments designated at fair value	*– 53*	*– 96*
Unrealized gains/losses	– 53	– 96
Net gains/losses from financial instruments measured at fair value through profit or loss not classified as held for trading and financial investments in equity instruments	*– 3*	*107*
Net gains/losses from bills	0	0
Net gains/losses from credits and loans	51	100
Net gains/losses from equity investments	– 6	5
Net gains/losses from investments in affiliates	0	– 3
Net gains/losses from shares and other equity instruments	– 48	5
Total	*110*	*172*

While capital market activities actually improved year on year thanks to high customer demand for hedging products, with a results of EUR 150 million (previous year: EUR 138 million), the contribution by banking book transactions fell. This saw a decline of EUR 76 million to EUR –42 million, chiefly a result of the ineffectiveness of derivatives as part of the Treasury's interest rate management and interest-related measurement effects. Net gains/losses from equity investments and affiliates reported with net gains/losses from financial instruments measured at fair value through profit or loss as an element of banking book activities declined to EUR –6 million as at 30 June 2020 (previous year: EUR 2 million).

Measurement effects from hedging transactions for hedging items designated at fair value also had a positive impact here. The offsetting effect from hedged items was presented in net gains/losses from financial instruments designated at fair value.

Net gains/losses from credits and loans benefited from measurement effects as a result of lower interest rates. This was countered by an effect in net trading gains/losses from closed positions.

8. Other operating income/expenses

EUR million	1 Jan. – 30 June 2020	1 Jan. – 30 June 2019
Other operating income	*168*	*181*
Disposal of inventories	16	15
Reversal of other provisions	26	29
Revenue from property services	8	8
Income from cost refunds by third parties	16	16
Management of other property portfolios	0	3
Operating leases	11	11
Fixed assets and intangible assets	1	1
Lease income from investment property	23	26
Net income from the fair value measurement of investment property	9	15
Foreign currency translation on investment property	8	0
Miscellaneous operating income	50	58
Other operating expenses	*– 78*	*– 129*
Disposal of inventories	– 9	– 11
Addition to other provisions	– 20	– 69
Operating leases	– 3	– 3
Operating expenses for leased properties	– 9	– 5
Net losses from the fair value measurement of investment property	0	– 1
Foreign currency translation on investment property	0	– 1
Miscellaneous operating expenses	– 37	– 38
Total	*90*	*52*

This upturn was attributable predominantly to the EUR 33 million improvement (net) to gains/losses related to legal issues, which were shaped by lower additions to provisions for legal risks in comparison to the previous year.

Miscellaneous operating income includes income from construction contracts, which rose marginally year on year.

Net income from the fair value measurement of investment property declined slightly, primarily due to the disposal of individual properties in the past year. All in all, earnings effects from foreign currency translation resulted in positive fair value adjustments.

9. Administrative expenses

EUR million	1 Jan. – 30 June 2020	1 Jan. – 30 June 2019
Staff costs	*– 486*	*– 507*
Wages and salaries	– 361	– 354
Expenses for pensions and benefits	– 55	– 64
Social security contributions	– 60	– 59
Other staff costs	– 10	– 30
Other administrative expenses	*– 280*	*– 291*
IT costs	– 150	– 152
Legal and consulting expenses	– 29	– 24
Expenses from leases	– 1	– 1
Cost of premises	– 26	– 28
Association and other contributions	– 21	– 20
Advertising, public relations and representation costs	– 7	– 11
Audit costs	– 4	– 5
Miscellaneous administrative expenses	– 42	– 50
Depreciation, amortization and write-downs[1]	*– 67*	*– 66*
Amortization and write-downs of intangible assets	– 31	– 31
Depreciation and write-downs of property and equipment	– 16	– 14
Depreciation and write-downs on rights-of-use	– 21	– 20
Total	*– 834*	*– 864*

1 Including depreciation/amortization and impairment.

Administrative expenses decreased slightly in comparison to the previous year, a result mainly of lower staff costs. Performance especially benefited from improved net gains/losses from personnel-related provisions.

Other administrative expenses also declined as a result of lower IT costs and lower expenses for representation, catering and marketing.

10. Expenses for bank levy and deposit guarantee system

EUR million	1 Jan. – 30 June 2020	1 Jan. – 30 June 2019
Expenses for bank levy	– 88	– 69
Expenses for deposit guarantee system	– 30	– 33
Total	*– 118*	*– 102*

The change in this item was particularly affected by the increase in the target volume for the bank levy due to the 7.2% rise in covered deposits in the eurozone in 2019. The contribution payable each year (»annual target level«) was increased from 1.15% to 1.25% of the covered deposit volume in order to achieve the higher target volume.

By contrast, expenses for the deposit guarantee system declined marginally in response to a slight decrease in the guarantee system’s target level.

11. Net income/expenses from restructuring

EUR million	1 Jan. – 30 June 2020	1 Jan. – 30 June 2019
Reversal of provisions for restructuring measures	1	0
Total	*1*	*0*

12. Income taxes

EUR million	1 Jan. – 30 June 2020	1 Jan. – 30 June 2019
Income taxes from previous years	2	8
Income taxes from the reporting period	– 34	– 23
Deferred income taxes	– 18	– 87
Total	*– 51*	*– 103*

The notional effective tax rate for the Group in the reporting period was 49% (previous year: 32%).

Notes to the balance sheet

13. Cash and cash equivalents

EUR million	30 June 2020	31 Dec. 2019
Balances with central banks	32,781	18,180
Cash	228	151
Total, net	*33,009*	*18,331*

The increase in cash and cash equivalents essentially stems from the rise in central bank balances due to participating in the ECB's tender program (TLTROIII). Balances with central banks included balances with Deutsche Bundesbank of EUR 27,506 million (previous year: EUR 16,166 million).

14. Financial assets measured at amortized cost

Loans and advances to banks

The breakdown of loans and advances to banks by type of business is as follows:

EUR million	30 June 2020	31 Dec. 2019
Public-sector loans	31,279	31,655
Current account claims	2,110	1,703
Securities repurchase transactions	12,691	11,392
Other loans	1,899	2,687
Schuldschein loans	70	70
Overnight and term money	6,706	6,881
Mortgage loans	691	597
Other receivables	836	834
Total, gross	*56,281*	*55,819*
Allowances for losses on loans and securities	– 17	– 19
Total, net	*56,263*	*55,801*

Changes in loans and advances to banks primarily reflected the increase in securities repurchase business with central counterparties.

The balance sheet item contains EUR 22,770 million (gross) in transmitted loans from the development loan business.

The breakdown of loans and advances to banks by region is as follows:

EUR million	30 June 2020	31 Dec. 2019
Banks within Germany	40,825	37,223
Banks outside Germany	15,456	18,597
Total, gross	*56,281*	*55,819*
Allowances for losses on loans and securities	– 17	– 19
Total, net	*56,263*	*55,801*

Loans and advances to customers

The breakdown of loans and advances to customers by type of business is as follows:

EUR million	30 June 2020	31 Dec. 2019
Other loans	26,728	28,446
Mortgage loans	36,251	31,782
Public-sector loans	11,450	11,492
Receivables from finance leases	5,436	5,828
Transmitted loans	3,115	3,760
Securities repurchase transactions	10,156	8,423
Current account claims	3,030	2,861
Overnight and term money	9,742	6,357
Schuldschein loans	7,494	7,312
Other receivables	3,528	4,935
Total, gross	*116,930*	*111,197*
Allowances for losses on loans and securities	– 1,136	– 877
Total, net	*115,794*	*110,320*

Customer business to provide support in times of crisis in almost all segments contributed to growth. Mortgage backed loans and overnight and term deposits picked up. In addition, the securities repurchase business reported another increase in volume, essentially attributable to business with central counterparties.

The balance sheet item contains EUR 7,228 million (gross) in transmitted loans from the development loan business.

The breakdown of loans and advances to customers by region is as follows:

EUR million	30 June 2020	31 Dec. 2019
Customers within Germany	79,000	76,679
Customers outside Germany	37,930	34,517
Total, gross	*116,930*	*111,197*
Allowances for losses on loans and securities	– 1,136	– 877
Total, net	*115,794*	*110,320*

Debentures and other fixed-income securities

EUR million	30 June 2020	31 Dec. 2019
Money market instruments	0	160
Government bonds and government debentures	368	394
Other bonds and debentures	588	536
Total, gross	*956*	*1,090*
Allowances for losses on loans and securities	– 8	– 8
Total, net	*948*	*1,082*

More information on allowances for losses on loans and securities and gross carrying amounts can be found in Note 30.

15. Financial assets measured at fair value through other comprehensive income

EUR million	30 June 2020	31 Dec. 2019
Debentures and other fixed-income securities	*30,732*	*26,642*
Money market instruments	981	1,488
Bonds and debentures	29,751	25,154
Receivables	*3,471*	*3,116*
Equity instruments	*57*	*487*
Equity investments	54	485
Shares in affiliates	3	2
Total	*34,260*	*30,245*

In particular, securities purchases for portfolios to manage liquidity resulted in an upturn in bonds and debentures.

The decrease in equity instruments is particularly due to the sale of a non-strategic minority interest. The sale allowed LBBW to adjust its shareholding in order to increasingly shift focus to customer business. Note 35 contains further information on equity instruments voluntarily measured at fair value through other comprehensive income.

Allowances for losses on loans and securities for financial assets measured at fair value through other comprehensive income are shown under Note 30.

16. Financial assets designated at fair value

EUR million	30 June 2020	31 Dec. 2019
Debentures and other fixed-income securities	*57*	*61*
Bonds and debentures	57	61
Receivables	*1,111*	*1,109*
Total	*1,168*	*1,170*

17. Financial assets mandatorily measured at fair value through profit or loss

Financial assets mandatorily measured at fair value through profit or loss break down as follows:

EUR million	30 June 2020	31 Dec. 2019
Positive fair values from hedging derivatives	1,436	1,374
Trading assets	38,236	30,421
Financial instruments measured at fair value through profit or loss, not classified as held for trading, and financial investments in equity instruments	1,157	1,218
Total	*40,829*	*33,013*

Positive fair values from hedging derivatives

EUR million	30 June 2020	31 Dec. 2019
Positive fair values from portfolio fair value hedges	1,001	986
Positive fair values from micro fair value hedges	435	389
Total	*1,436*	*1,374*

Trading assets

EUR million	30 June 2020	31 Dec. 2019
Positive fair values from derivative financial instruments	*24,170*	*19,834*
Debentures and other fixed-income securities	*5,762*	*4,752*
Money market instruments	309	399
Bonds and debentures	5,453	4,353
Receivables	*7,703*	*4,925*
Schuldschein loans	4,046	3,318
Other money market transactions	2,057	158
Receivables from securities repurchase agreements	948	800
Other receivables	652	649
Equity instruments	*601*	*910*
Equities	375	302
Investment fund units	226	607
Total	*38,236*	*30,421*

Interest rates declined sharply in the first half of 2020 in connection with the coronavirus crisis, causing a rise in positive fair values from derivative financial instruments.

Financial instruments measured at fair value through profit or loss, not classified as held for trading, and financial investments in equity instruments

EUR million	30 June 2020	31 Dec. 2019
Debentures and other fixed-income securities	*10*	*16*
Bonds	5	10
Silent partner contributions	5	5
Receivables	*726*	*707*
Loans and advances to customers	726	707
Equity instruments	*421*	*495*
Equities	9	12
Investment fund units	242	304
Equity investments	144	151
Shares in affiliates	26	27
Total	*1,157*	*1,218*

18. Shares in investments accounted for using the equity method

EUR million	30 June 2020	31 Dec. 2019
Associates	254	260
Joint ventures	5	5
Total	*259*	*265*

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

In the course of the constant optimization of its portfolio, LBBW held or concluded negotiations for the sale of non-current assets held for sale and disposal groups in the period under review.

As at 30 June 2020, there were no non-current assets held for sale and disposal groups in the portfolio:

- Sales talks began for two investment properties in the second half of 2019. Both properties were sold in the first half of 2020. This affects the »Corporates Items« reporting segment.
- One disposal group for which sales talks began in the second half of 2019 was sold in H1 2020. The disposal group was assigned to the »Corporate Items« reporting segment.
- In addition, sales negotiations for one property reported as property and equipment were conducted in the second half of 2019. The property was sold in the first half of 2020. This affects the »Corporate Items« segment.

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

EUR million	30 June 2020	31 Dec. 2019
Assets		
Investment property	0	57
Property and equipment	0	8
Total	*0*	*65*
Equity and liabilities		
Other liabilities	0	4
Total	*0*	*4*

After the end of the reporting period as at 30 June 2020, one customer receivable met the criteria for a non-current asset held for sale. A decision was made at the start of July 2020 to sell the customer receivable for risk management purposes. It was also processed in July. The receivable was allocated to the »Corporate Customers« segment.

20. Intangible assets

EUR million	30 June 2020	31 Dec. 2019
Purchased software	71	84
Advance payments and cost for development and preparation	19	17
Internally generated intangible assets	53	53
Other purchased intangible assets	41	43
Total	*184*	*198*

21. Investment property

The fair value is calculated using the discounted cash flow method. The respective building serves as a cash-generating unit. The expected cash flows generated per cash-generating unit are calculated assuming income from property management. For a detailed planning period of ten years, the cash generated is calculated as the net amount of payments received and payments made in connection with management of the property. A residual value for the cash-generating unit is forecast for the end of the planning period by capitalizing the cash generated in the tenth year as a perpetual annuity.

Future income in the planning period is forecast based on the contractually agreed target rent or, after the contract period has expired, the market rent specific to the property. Future expenditure is determined in different ways: Administrative expenses are based on standard market rates. Costs associated with loss of rental income are calculated at a flat rate on the basis of the target rents, depending on the sales cost and the credit standing of the tenant. Costs associated with vacancies and new rental costs, maintenance costs and maintenance backlogs are calculated for each specific property, supplemented by the Group's own experience if applicable. If ground rent (Erbbauzins) is to be taken into account, this is calculated individually on the basis of existing contracts.

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

The carrying amounts of investment property at fair value developed as follows:

EUR million	Investment property	Rights-of-use from leases	Total
Carrying amount as at 1 January 2020	*624*	*30*	*655*
Additions	9	0	9
Currency translation differences	– 2	– 1	– 3
Changes in fair value from assets (through profit or loss)	9	0	9
Carrying amount as at 30 June 2020	*640*	*30*	*669*

EUR million	Investment property	Rights-of-use from leases	Total
Carrying amount as at 1 January 2019	*688*	*35*	*723*
Additions	4	0	4
Disposals	– 2	0	– 2
Reclassification to non-current assets or disposal groups held for sale	– 108	– 4	– 112
Currency translation differences	5	1	6
Changes in fair value from assets (through profit or loss)	37	– 2	34
Reclassification from/to inventories and property and equipment	1	0	1
Carrying amount as at 31 December 2019	*624*	*30*	*655*

See Note 34 for additional quantitative information.

22. Property and equipment

EUR million	30 June 2020	31 Dec. 2019
Land and buildings	293	302
Leased assets under operating leases	135	64
Operating and office equipment	73	75
Technical equipment and machinery	10	10
Rights-of-use from leases	324	338
Advance payments and assets under construction	5	25
Total	*840*	*814*

23. Other assets

EUR million	30 June 2020	31 Dec. 2019
Inventories	864	762
Receivables from tax authorities	58	61
Other miscellaneous assets	2,212	1,797
Total	*3,134*	*2,619*

The rise in miscellaneous other assets resulted partly from the increase in trade receivables and services as part of the currency exchange and precious metals business, as well as higher margin holdings as part of business in derivatives. This also affected »Other liabilities« (see Note 28).

24. Financial liabilities measured at amortized cost

Deposits from banks

The breakdown of deposits from banks by type of business is as follows:

EUR million	30 June 2020	31 Dec. 2019
Securities repurchase transactions	578	1,932
Transmitted loans	29,959	28,698
Schuldschein loans	3,220	3,152
Overnight and term money	45,968	27,733
Public-sector registered covered bonds issued	361	347
Current account liabilities	2,898	1,690
Mortgage-backed registered covered bonds issued	123	133
Other liabilities	3,843	2,947
Total	*86,952*	*66,633*

In particular, this development was due to an increase in overnight and term deposits in connection with participating in the ECB's tender program.

The breakdown of deposits from banks by region is as follows:

EUR million	30 June 2020	31 Dec. 2019
Banks within Germany	68,000	45,700
Banks outside Germany	18,952	20,933
Total	*86,952*	*66,633*

Deposits from customers

The breakdown of deposits from customers by type of business is as follows:

EUR million	30 June 2020	31 Dec. 2019
Current account liabilities	52,577	46,194
Overnight and term money	28,518	29,530
Schuldschein loans	2,285	2,163
Securities repurchase transactions	1,647	1,916
Public-sector registered covered bonds issued	2,213	2,195
Savings deposits	5,427	5,595
Mortgage-backed registered covered bonds issued	209	219
Other liabilities	2,235	2,507
Total	*95,111*	*90,319*

The change in this balance sheet item was primarily due to an increase in current account liabilities. Corporate customers and asset management companies in particular increasingly took advantage of LBBW investments.

The breakdown of deposits from customers by region is as follows:

EUR million	30 June 2020	31 Dec. 2019
Customers within Germany	82,751	79,235
Customers outside Germany	12,359	11,084
Total	*95,111*	*90,319*

Securitized liabilities

EUR million	30 June 2020	31 Dec. 2019
Issued debentures	*30,102*	*28,536*
Mortgage-backed covered bonds	9,393	9,436
Public-sector covered bonds	4,736	4,867
Other debentures	15,973	14,233
Other securitized liabilities	*13,535*	*10,280*
Total	*43,637*	*38,815*

Short-term refinancing via securitized money market transactions was expanded primarily outside Germany. As sustainability is one of LBBW's four strategic cornerstones, it continued to systematically put its sustainability efforts into practice. As part of this, its own funding was supplemented by a first green bond in pound sterling, with a volume of GBP 500 million, and a second social bond of EUR 1.0 billion.

Subordinated capital

EUR million	30 June 2020	31 Dec. 2019
Typical silent partners' contributions	933	1,085
Subordinated liabilities	4,757	4,927
Capital generated from profit participation rights	117	111
Total	*5,807*	*6,123*

Subordinated capital declined in the reporting period in connection with the repayment of subordinated deposits and silent partners' contributions.

25. Financial liabilities designated at fair value

EUR million	30 June 2020	31 Dec. 2019
Schuldschein loans	804	825
Securitized liabilities	3,988	4,011
Subordinated deposits	130	170
Junior bonds	621	726
Money market transactions	128	115
Other	907	909
Total	*6,579*	*6,757*

This item remained virtually in line with the previous year, as maturities and the volume of new business balanced each other out overall. Considerably wider spreads owing to the coronavirus pandemic resulted in lower fair values and thus a decline in carrying amounts, especially for subordinated bonds.

26. Financial liabilities mandatorily measured at fair value through profit or loss

Financial liabilities mandatorily measured at fair value through profit or loss break down as follows:

EUR million	30 June 2020	31 Dec. 2019
Negative fair values from derivative hedging instruments	2,673	2,537
Trading liabilities	27,484	24,422
Total	*30,158*	*26,959*

Negative fair values from derivative hedging instruments

EUR million	30 June 2020	31 Dec. 2019
Negative fair values from portfolio fair value hedges	1,861	1,760
Negative fair values from micro fair value hedges	813	777
Total	*2,673*	*2,537*

Trading liabilities

EUR million	30 June 2020	31 Dec. 2019
Negative fair values from derivatives	*20,796*	*17,035*
Other trading liabilities	*6,688*	*7,387*
Delivery obligations from short sales of securities	540	827
Securitized liabilities	5,778	6,368
Schuldschein loans	201	192
Money market transactions	167	0
Other	2	0
Total	*27,484*	*24,422*

The sharp decline in interest rates in the first half also had an impact here on the measurement of derivatives, resulting in a rise in negative fair values from derivatives. Holdings of securitized liabilities from issuing activities for money market paper also saw an upturn.

27. Provisions

EUR million	30 June 2020	31 Dec. 2019
Provisions for pensions	3,671	3,652
Provisions for litigation and recourse risk	210	222
Provisions for lending business	136	146
Other personnel-related provisions	102	140
Other provisions	254	251
Total	*4,373*	*4,410*

The following table shows the development of provisions for credit risks:

EUR million	Stage 1 12-month expected credit loss	Stage 2 Life-time expected credit loss	Stage 3 Credit impairment after recognition	Total
Balance as at 1 January 2020	*18*	*30*	*97*	*146*
Changes	- 3	- 3	- 3	- 9
Transfer to Stage 1	2	- 2	0	0
Transfer to Stage 2	2	- 2	0	0
Transfer to Stage 3	0	- 1	1	0
Additions	3	10	19	32
Reversals	- 10	- 9	- 23	- 41
Additions	4	1	7	12
Disposals	- 1	- 2	- 9	- 12
Other changes	0	0	0	- 1
Balance as at 30 June 2020	*18*	*26*	*92*	*136*

EUR million	Stage 1 12-month expected credit loss	Stage 2 Life-time expected credit loss	Stage 3 Credit impairment after recognition	Total
Balance as at 1 January 2019	*23*	*39*	*59*	*121*
Changes	- 8	- 8	33	17
Transfer to Stage 1	7	- 7	0	0
Transfer to Stage 2	- 2	2	0	0
Transfer to Stage 3	0	- 4	4	0
Additions	3	16	61	80
Reversals	- 16	- 16	- 31	- 63
Additions	6	2	20	29
Disposals	- 3	- 3	- 16	- 22
Balance as at 31 December 2019	*18*	*30*	*97*	*146*

To determine the calculatory interest rate for measuring pension and other obligations to employees under IAS 19, LBBW's external appraiser uses an established method to determine interest rates. An alternative way of determining the calculatory interest rate was developed in the 2020 financial year that takes account of the high volatility on capital markets observed during the coronavirus crisis (see Note 2).

28. Other liabilities

EUR million	30 June 2020	31 Dec. 2019
Liabilities from		
other taxes	180	51
Employment	12	37
Trade payables	36	71
Non-controlling interests	3	3
Leasing	367	381
Advances received	240	146
Other miscellaneous liabilities	1,538	1,424
Total	*2,377*	*2,113*

The increase in other miscellaneous liabilities essentially resulted from higher margin holdings. This also affected »Other assets« (see Note 23).

29. Equity

EUR million	30 June 2020	31 Dec. 2019
Share capital	3,484	3,484
Capital reserve	8,240	8,240
Retained earnings	1,394	824
Other comprehensive income	– 48	152
Net consolidated profit/loss	53	445
Shareholders' equity	*13,123*	*13,146*
Additional equity components	*745*	*745*
Equity attributable to non-controlling interests	33	32
Total	*13,901*	*13,923*

»Retained earnings« included cumulative actuarial gains/losses after tax of EUR –1,155 million (previous year: EUR –1,143 million). Profit and loss carryforwards from prior periods are also recognized under »Retained earnings«. No resolution has yet been passed regarding the appropriation of net profit in 2019 for LBBW (Bank).

As at the end of the current reporting period, a measurement effect after deferred taxes of EUR 101 million (previous year: EUR 4 million) in connection with the measurement of LBBW's own credit rating was included in other comprehensive income. This reflected the increase in own credit spread (OCS) due to the coronavirus pandemic.

»Equity« includes taxes recognized in other comprehensive income of EUR 526 million (previous year: EUR 520 million).

The detailed development of the individual components of the Equity item is shown in statement of changes in equity.

Notes on financial instruments

The disclosures in the following notes essentially satisfy the requirements of IFRS 7 and IFRS 13. Further IFRS 7 disclosures (IFRS 7.35K and IFRS 7.36) can be found in the risk report.

30. Allowances for losses on loans and advances and gross carrying amounts

The allowances for losses on loans and securities recognized break down as follows:

EUR million	30 June 2020	31 Dec. 2019
Financial assets measured at amortized cost	*1,161*	*904*
Loans and advances to banks	17	19
Loans and advances to customers	1,136	877
Debentures and other fixed-income securities	8	8
Financial assets measured at fair value through other comprehensive income	*3*	*3*
Debentures and other fixed-income securities	3	3
Total	*1,164*	*906*

Allowances for losses on loans and securities for financial guarantees and loan commitments recognized in accordance with IFRS 9 are included in provisions for credit risks (see Note 27).

Financial assets measured at amortized cost

The allowances for losses on loans and securities deducted from assets developed as follows:

EUR million	Stage 1 12-month expected credit loss	Stage 2 Life-time expected credit loss	Stage 3 Credit impairment after recognition	Credit impairment at recognition	Total
Balance as at 1 January 2020	*59*	*294*	*549*	*1*	*904*
Changes	– 5	67	187	0	248
Transfer to Stage 1	11	– 10	– 1	0	0
Transfer to Stage 2	– 4	7	– 3	0	0
Transfer to Stage 3	– 1	– 7	8	0	0
Additions	10	118	261	0	390
Reversals	– 20	– 41	– 48	– 1	– 110
Utilization	0	0	– 31	0	– 31
Additions	12	2	24	0	38
Disposals	– 4	– 4	– 27	0	– 36
Other changes	0	– 1	7	0	7
Balance as at 30 June 2020	*62*	*358*	*740*	*1*	*1,161*

The recognition of allowances for losses on loans and securities was influenced by the crisis triggered by the coronavirus. The reliability of statistical allowances for losses on loans and securities models, which were estimated based on multi-year data, is limited at present due to the structural upheaval stemming from the coronavirus crisis. For this reason, LBBW calculated the allowances for losses on loans and securities as at the end of the first half of 2020 using tailored, individual models, some of which also incorporated sector-specific assessments by experts. The allowances for losses on loans and securities thus include a COVID-19 post-model-adjustment of EUR 135 million. The allowances for losses on loans and securities recognized at the end of 2019 to illustrate the impact of the move towards increased e-mobility were unchanged in terms of the estimates. By contrast, estimates regarding the impact of a hard Brexit and in relation to economic risks were adjusted as these were overshadowed by the coronavirus pandemic. These issues were then transferred to the COVID-19 post-model-adjustment.

EUR million	Stage 1 12-month expected credit loss	Stage 2 Life-time expected credit loss	Stage 3 Credit impairment after recognition	Credit impairment at recognition	Total
Balance as at 1 January 2019	*59*	*287*	*499*	*21*	*865*
Changes	– 13	11	29	– 18	9
Transfer to Stage 1	20	– 19	– 1	0	0
Transfer to Stage 2	– 7	15	– 8	0	0
Transfer to Stage 3	– 4	– 9	12	0	0
Additions	11	75	202	2	290
Reversals	– 33	– 52	– 89	– 1	– 175
Utilization	0	0	– 86	– 19	– 106
Additions	24	7	50	0	81
Disposals	– 10	– 11	– 45	– 2	– 68
Other changes	0	0	16	1	17
Balance as at 31 December 2019	*59*	*294*	*549*	*1*	*904*

The gross carrying value of financial assets measured at amortized cost as at the end of the reporting period was EUR 174,166 million (previous year: EUR 168,106 million) and broke down as follows: EUR 158,856 million Stage 1 (previous year: EUR 153,122 million), EUR 13,979 million Stage 2 (previous year: EUR 13,888 million), EUR 1,298 million Stage 3 (previous year: EUR 1,064 million) and EUR 33 million in credit impairment at recognition (previous year: EUR 31 million).

In accordance with IFRS 9, adjustments to the terms of a transaction that do not have a material impact on its fair value do not mean it must be derecognized from the balance sheet. Stage 2 and 3 financial assets for which adjustments were made to the contract during the reporting period and that were not derecognized are as follows:

30 June 2020 EUR million	Stage 2 Life-time expected credit loss	Stage 3 Credit impairment after recognition	Credit impairment at recognition	Total
Amortized cost before contract amendment in the current financial year	1,032	362	8	1,402

31 December 2019 EUR million	Stage 2 Life-time expected credit loss	Stage 3 Credit impairment after recognition	Credit impairment at recognition	Total
Amortized cost before contract amendment in the current financial year	301	142	3	446

As in the previous year, in the reporting period no financial assets of Stage 2 or 3 were allocated to Stage 1 after adjustments were made to the contract.

Financial assets measured at fair value through other comprehensive income

Allowances for losses on loans and securities developed as follows:

EUR million	Stage 1 12-month expected credit loss	Total
Balance as at 1 January 2020	*3*	*3*
Changes	0	0
Additions	2	2
Reversals	– 1	– 1
Balance as at 30 June 2020	*3*	*3*

EUR million	Stage 1 12-month expected credit loss	Total
Balance as at 1 January 2019	*2*	*2*
Changes	0	0
Reversals	– 1	– 1
Additions	1	1
Balance as at 31 December 2019	*3*	*3*

The gross carrying value of financial assets measured at fair value through other comprehensive income as at the end of the reporting period was EUR 34,203 million (previous year: EUR 29,758 million) and broke down as follows: EUR 34,203 million Stage 1 (previous year: EUR 29,748 million), EUR 0 million Stage 2 (previous year: EUR 10 million), EUR 0 million Stage 3 (previous year: EUR 0 million) and EUR 0 million in »Credit impairment at recognition« (previous year: EUR 0 million).

31. Counterparty risk

The quantitative information on credit risk is based on the management approach. By contrast to the basis of consolidation for accounting purposes under IFRS, only the SüdLeasing Group and LBBW México SOFOM are included in consolidation under the management approach. In line with internal risk management, the primary parameter in the information below is gross/net exposure.

Collateral

The LBBW has high standards for collateral. Guidelines and collateral strategy requirements ensure that collateral is of a high quality. In addition to the individual measurement of collateral, its carrying amount is also subject to LGD modeling haircuts (recovery rates).

The following table shows the maximum counterparty risk and the effect of risk-mitigating measures.

30 June 2020 EUR million	Gross exposure	Netting/ collateral	Credit derivatives (protection buy)	Credit collateral	Net exposure
Financial assets measured at fair value					
Financial assets mandatorily measured at fair value through profit or loss	104,149	76,453	5,878	801	21,018
Trading assets	96,401	69,880	5,878	799	19,843
Derivatives	75,537	61,191	4,594	594	9,158
Equity instruments	626	622	0	0	4
Debentures and other fixed-income securities	6,870	2,593	203	0	4,074
Receivables	13,368	5,475	1,081	205	6,607
Financial instruments measured at fair value through profit or loss, not classified as held for trading, and equity instruments	1,272	164	0	2	1,107
Equity instruments	568	164	0	0	405
Debentures and other fixed-income securities	5	0	0	0	5
Receivables	699	0	0	2	697
Positive fair values from hedging derivatives	6,476	6,409	0	0	67
Financial assets designated at fair value	951	0	0	0	950
Debentures and other fixed-income securities	55	0	0	0	55
Receivables	895	0	0	0	895
Financial assets measured at fair value through other comprehensive income	33,908	0	0	0	33,908
Equity instruments	1,470	0	0	0	1,470
Debentures and other fixed-income securities	29,690	0	0	0	29,690
Receivables	2,747	0	0	0	2,747
Financial assets measured at amortized cost					
Cash and cash equivalents	6,297	0	0	0	6,297
Loans and advances to banks	75,094	37,752	0	546	36,796
Loans and advances to customers	119,098	18,033	0	36,972	64,093
Debentures and other fixed-income securities	871	0	0	0	871
Total	*340,367*	*132,238*	*5,878*	*38,318*	*163,932*
Loan commitments and other agreements	60,141	0	0	3,168	56,973
Total exposure	*400,508*	*132,238*	*5,878*	*41,487*	*220,905*

31 December 2019 EUR million	Gross exposure	Netting/ collateral	Credit derivatives (protection buy)	Credit collateral	Net exposure
Financial assets measured at fair value					
Financial assets mandatorily measured at fair value through profit or loss	83,759	59,324	6,620	530	17,286
Trading assets	76,164	52,988	6,620	521	16,035
Derivatives	60,627	47,369	5,316	494	7,448
Equity instruments	916	912	0	0	4
Debentures and other fixed-income securities	6,494	1,163	219	0	5,112
Receivables	8,128	3,544	1,085	27	3,471
Financial instruments measured at fair value through profit or loss, not classified as held for trading, and equity instruments	1,364	210	0	1	1,153
Equity instruments	649	210	0	0	440
Debentures and other fixed-income securities	10	0	0	0	10
Receivables	704	0	0	1	703
Positive fair values from hedging derivatives	6,231	6,126	0	8	97
Financial assets designated at fair value	959	0	0	4	955
Debentures and other fixed-income securities	60	0	0	0	60
Receivables	899	0	0	4	895
Financial assets measured at fair value through other comprehensive income	28,627	0	0	0	28,627
Equity instruments	1,920	0	0	0	1,920
Debentures and other fixed-income securities	24,185	0	0	0	24,185
Receivables	2,522	0	0	0	2,522
Financial assets measured at amortized cost					
Cash and cash equivalents	3,121	0	0	0	3,121
Loans and advances to banks	66,831	25,872	0	531	40,428
Loans and advances to customers	110,368	13,715	0	37,563	59,090
Debentures and other fixed-income securities	1,015	0	0	0	1,015
Total	*294,680*	*98,911*	*6,620*	*38,628*	*150,522*
Loan commitments and other agreements	58,651	0	0	3,148	55,503
Total exposure	*353,332*	*98,911*	*6,620*	*41,776*	*206,025*

The combined effect of netting and collateral agreements, credit derivatives (protection buy) and credit collateral (risk mitigation) in relation to the maximum counterparty risk of EUR 401 billion as at 30 June 2020 is EUR 180 billion or 44.8% in total (previous year: 41.7%). The increased share of risk mitigation is mainly on account of higher weightings for repo/lending transactions and collateral performance of interest rate derivatives. Credit collateral has developed stably. Nonetheless, there are differences between segments – for example, credit collateral is higher for real estate financing than for corporate customers.

In exceptional cases (< 1% of the portfolio), the securities cover the gross exposure in full, meaning that no impairment losses are recognized.

Of the total portfolio of EUR 401 billion as at 30 June 2020, transactions with a gross exposure of EUR 286 billion are subject to the provisions for allowances for losses on loans and securities set out in IFRS 9. The overwhelming portion of these assets (99.5%) is not credit-impaired.

Credit-impaired assets

Credit-impaired assets in accordance with IFRS 9 are financial instruments in default (rating 16 to 18). These rating classes accounted for gross exposure of EUR 1.4 billion as at 30 June 2020.

The table below shows the maximum counterparty risk and the effect of risk-mitigating measures on credit-impaired assets:

30 June 2020 **EUR million**	**Gross exposure**	**Credit collateral**	**Net exposure**
Financial assets measured at amortized cost			
Loans and advances to banks	19	1	18
Loans and advances to customers	1,186	228	958
Total	*1,205*	*229*	*976*
Loan commitments and other agreements	233	23	210
Total exposure	*1,438*	*252*	*1,186*

31 December 2019 **EUR million**	**Gross exposure**	**Credit collateral**	**Net exposure**
Financial assets measured at amortized cost			
Loans and advances to banks	19	1	18
Loans and advances to customers	968	268	700
Total	*987*	*270*	*718*
Loan commitments and other agreements	238	25	213
Total exposure	*1,226*	*295*	*931*

Default risk and concentrations

The following information is based on the tables in the risk report for counterparty risk. However, unlike those tables, only financial instruments subject to the scope of the impairment provisions of IFRS 9 are presented here.

The following table presents gross exposure by rating class:

30 June 2020 EUR million	Stage 1 12-month expected credit loss	Stage 2 Life-time expected credit loss	Stage 3 Credit impairment after recognition	Credit impairment at recognition	Total
1 (AAAA)	24,411	0	0	0	24,411
1 (AAA)– 1 (A-)	157,906	622	0	2	158,530
2–5	65,799	7,480	0	17	73,296
6–8	12,093	4,983	0	0	17,075
9–10	2,285	2,148	0	0	4,433
11–15	1,519	2,387	0	5	3,912
16–18 (default)[1]	0	0	1,425	13	1,438
Other[2]	3,282	52	0	0	3,334
Total	*267,295*	*17,672*	*1,425*	*36*	*286,428*

1 »Default« refers to exposure for which a default event as defined in Article 148 CRR has occurred, e.g. improbability of repayment or 90-day default. The gross exposure is presented before impairment.
2 Includes non-rated transactions, in particular rating waivers.

31 December 2019 EUR million	Stage 1 12-month expected credit loss	Stage 2 Life-time expected credit loss	Stage 3 Credit impairment after recognition	Credit impairment at recognition	Total
1 (AAAA)	21,034	0	0	0	21,034
1 (AAA)– 1 (A-)	139,545	709	0	2	140,256
2–5	59,356	7,992	0	17	67,365
6–8	13,473	5,139	0	0	18,612
9–10	1,722	2,092	0	0	3,814
11–15	1,125	2,426	0	5	3,557
16–18 (default)[1]	0	0	1,200	26	1,226
Other[2]	3,409	13	0	0	3,422
Total	*239,664*	*18,371*	*1,200*	*49*	*259,285*

1 »Default« refers to exposure for which a default event as defined in Article 148 CRR has occurred, e.g. improbability of repayment or 90-day default. The gross exposure is presented before impairment.
2 Includes non-rated transactions, in particular rating waivers.

93.3% of assets were assigned to Stage 1 as at 30 June 2020, and another 6.2% to Stage 2. Stage 3 and the category »Credit impairment at recognition« are not significant.

The following table presents gross exposure by sector:

30 June 2020 EUR million	Stage 1 12-month expected credit loss	Stage 2 Life-time expected credit loss	Stage 3 Credit impairment after recognition	Credit impairment at recognition	Total
Financials	*133,235*	*1,053*	*26*	*1*	*134,314*
of which transactions under specific state liability[1]	10,862	0	0	0	10,862
Corporates	*82,628*	*10,103*	*1,317*	*15*	*94,063*
Automotive	9,727	2,556	451	6	12,740
Construction	7,749	655	82	3	8,488
Chemicals and commodities	6,652	758	54	0	7,464
of which chemicals	3,322	255	1	0	3,578
of which commodities	3,330	503	53	0	3,886
Retail and consumer goods	14,045	1,905	248	0	16,197
of which consumer goods	10,265	798	86	0	11,150
of which durables	3,779	1,107	161	0	5,048
Industry	9,587	1,457	155	0	11,198
Pharmaceuticals and healthcare	4,981	361	9	3	5,353
TM and electronics/IT	6,667	460	229	0	7,355
Transport and logistics	7,782	360	16	0	8,158
Utilities and energy	7,660	1,096	47	3	8,807
of which utilities and disposal companies	4,665	295	40	3	5,003
of which renewable energies	2,995	802	7	0	3,805
Other	7,778	496	27	0	8,301
Real estate	*27,040*	*4,864*	*32*	*10*	*31,947*
Commercial real estate (CRE)	18,150	4,698	23	8	22,878
Housing	8,891	167	10	2	9,069
Public sector	*14,425*	*113*	*0*	*0*	*14,538*
Private individuals	*9,966*	*1,539*	*50*	*11*	*11,566*
Total	*267,295*	*17,672*	*1,425*	*36*	*286,428*

1 Transactions with a statutory guarantee (Gewährträgerhaftung) and transactions with central banks and banks with a public-sector background.

31 December 2019 EUR million	Stage 1 12-month expected credit loss	Stage 2 Life-time expected credit loss	Stage 3 Credit impairment after recognition	Credit impairment at recognition	Total
Financials	*110,372*	*1,007*	*32*	*1*	*111,411*
of which transactions under specific state liability[1]	7,947	0	0	0	7,947
Corporates	*79,429*	*10,561*	*1,072*	*27*	*91,089*
Automotive	9,018	3,007	404	0	12,429
Construction	7,463	699	90	3	8,255
Chemicals and commodities	6,874	696	77	0	7,648
of which chemicals	3,485	207	1	0	3,693
of which commodities	3,390	489	77	0	3,955
Retail and consumer goods	13,987	1,851	242	0	16,079
of which consumer goods	10,099	891	75	0	11,065
of which durables	3,888	960	167	0	5,014
Industry	9,565	1,482	114	0	11,161
Pharmaceuticals and healthcare	4,774	383	9	3	5,169
TM and electronics/IT	7,054	443	10	0	7,507
Transport and logistics	6,437	389	27	0	6,853
Utilities and energy	7,630	992	48	3	8,674
of which utilities and disposal companies	4,638	268	36	3	4,945
of which renewable energies	2,993	724	12	0	3,729
Other	6,626	618	50	18	7,313
Real estate	*25,885*	*5,056*	*44*	*10*	*30,995*
Commercial real estate (CRE)	18,660	4,725	34	8	23,428
Housing	7,225	330	10	2	7,567
Public sector	*13,934*	*97*	*0*	*0*	*14,031*
Private individuals	*10,044*	*1,651*	*52*	*11*	*11,758*
Total	*239,664*	*18,371*	*1,200*	*49*	*259,285*

1 Transactions with a statutory guarantee (Gewährträgerhaftung) and transactions with central banks and banks with a public-sector background.

The exposures in financials and the public sector (and the German public sector in particular) generally have very good, stable credit quality with a low exposure share in Stage 2. There is a slightly higher share of Stage 2 exposure in the corporates and real estate portfolio. In the automotive sector, this is rooted in long-term uncertainty regarding change in the industry and the impact on manufacturers and suppliers. In the commercial real estate sector (CRE), the sub-portfolio in the United Kingdom is currently experiencing uncertainty on account of Brexit and subsequent developments.

The following table presents gross exposure by region:

30 June 2020 EUR million	Stage 1 12-month expected credit loss	Stage 2 Life-time expected credit loss	Stage 3 Credit impairment after recognition	Credit impairment at recognition	Total
Germany	156,905	11,119	1,220	30	169,276
Western Europe (excluding Germany)	73,519	3,643	67	5	77,234
North America	24,177	1,494	19	0	25,689
Asia/Pacific	7,652	200	20	0	7,872
Eastern Europe	2,901	587	49	0	3,538
Latin America	980	624	48	1	1,654
Africa	363	5	0	0	369
Other[1]	798	0	0	0	798
Total	*267,295*	*17,672*	*1,425*	*36*	*286,428*

1 Transactions not allocated to a particular country (e.g. transactions with supranational institutions).

31 December 2019 EUR million	Stage 1 12-month expected credit loss	Stage 2 Life-time expected credit loss	Stage 3 Credit impairment after recognition	Credit impairment at recognition	Total
Germany	145,591	11,570	1,044	25	158,230
Western Europe (excluding Germany)	63,892	4,008	30	23	67,954
North America	18,358	1,335	19	0	19,713
Asia/Pacific	7,057	211	1	0	7,269
Eastern Europe	2,624	685	54	0	3,363
Latin America	1,164	551	50	2	1,766
Africa	377	12	0	0	389
Other[1]	601	0	0	0	601
Total	*239,664*	*18,371*	*1,200*	*49*	*259,285*

1 Transactions not allocated to a particular country (e.g. transactions with supranational institutions).

Eastern Europe and Latin America have higher Stage 2 exposure shares as at 30 June 2020 than the average for the overall portfolio. However, these regions account for only a small share of the portfolio.

The following table presents gross exposure by size class:

30 June 2020 EUR million	Stage 1 12-month expected credit loss	Stage 2 Life-time expected credit loss	Stage 3 Credit impairment after recognition	Credit impairment at recognition	Total
Up to EUR 10 million	26,460	3,959	456	22	30,897
Up to EUR 50 million	27,526	3,576	550	14	31,667
Up to EUR 100 million	21,747	3,069	178	0	24,994
Up to EUR 500 million	79,164	6,779	231	0	86,175
Up to EUR 1 billion	40,433	205	5	0	40,643
Over EUR 1 billion	69,029	26	0	0	69,055
LBBW Group companies	2,935	58	4	0	2,996
Total	*267,295*	*17,672*	*1,425*	*36*	*286,428*

31 December 2019 EUR million	Stage 1 12-month expected credit loss	Stage 2 Life-time expected credit loss	Stage 3 Credit impairment after recognition	Credit impairment at recognition	Total
Up to EUR 10 million	26,418	4,155	508	16	31,098
Up to EUR 50 million	27,471	3,811	518	33	31,834
Up to EUR 100 million	20,553	3,533	132	0	24,218
Up to EUR 500 million	76,012	6,427	38	0	82,476
Up to EUR 1 billion	32,555	147	0	0	32,701
Over EUR 1 billion	53,350	197	0	0	53,547
LBBW Group companies	3,305	102	4	0	3,411
Total	*239,664*	*18,371*	*1,200*	*49*	*259,285*

Large-volume exposures in excess of EUR 500 million are almost exclusively allocated to Stage 1. Nearly half of the Stage 2 transactions amount to less than EUR 50 million as at 30 June 2020.

The risk report contains further information on impairment on the portfolio.

Forbearance

As at 30 June 2020, LBBW held assets with a net carrying amount of EUR 548 million (previous year: EUR 480 million) for which forbearance measures were adopted. Concessions to terms and conditions were essentially granted. A EUR 262 million (previous year: EUR 154 million) sub-portfolio of the assets for which forbearance measures have been adopted comprise credit-impaired assets.

LBBW has received guarantees of EUR 78 million (previous year: EUR 54 million) for assets with forbearance measures.

32. Fair value measurement

Fair value is defined in accordance with IFRS 13 as the price at which an asset could be bought and sold at the measurement date in an orderly transaction between market participants or that would be paid to transfer a liability.

When determining the fair value, a company specifies the preferred (i.e. the principal) market for the asset or liability or, in the absence thereof, the most advantageous market. LBBW defines the principal market as the market with the highest trading volume and highest level of market activity for the cash-generating unit. This is not necessarily the market on which LBBW's trading activity is the highest. LBBW sees the most advantageous market as that market on which – taking transaction and transport costs into account – the maximum proceeds can be achieved or the lowest amount must be paid when transferring a liability.

When calculating fair values, LBBW uses prices (if available) from the principal market, provided these represent prices used within the scope of regular and current transactions. These are reviewed on the basis of the following criteria: timely availability, amount, executability and bid-offer spreads.

If no prices quoted in active markets are available, measurement methods, prices for similar assets or liabilities on active markets, prices for identical or similar assets or liabilities on non-active markets are used. Input parameters used for measurement methods are based on inputs observable on the markets if available. The application of these models and the use of these parameters requires assumptions and assessments on the part of the management, the extent of which depends on price transparency with regard to the financial instrument and its market and the complexity of the instrument. A significant amount of subjective assessment is necessary, particularly if there are no inputs observable on the markets.

The aim of the applying measurement methods is to determine the price at which a transaction for a financial asset or liability could take place between knowledgeable third parties at the end of the reporting period. Measurement methods therefore have to include all factors which market participants would take into account when determining prices.

The fair values are subject to the LBBW Group's internal controls and processes that set out the standards for the independent review or validation of fair values. These controls and procedures are monitored by the IPV and Market Data organizational unit within the Risk Controlling division. The models, the data used in them and the resulting fair values are regularly reviewed by the Market Risk Controlling Methodology organizational unit.

The following table contains an overview of the measurement models used for financial instruments:

Financial instruments	Measurement models	Material inputs
Interest rate swaps and options	Net present value method, Black-Scholes, replication and Copula-based models, Markov functional model and Libor market models	Yield curves, swaption volatility, cap volatility, correlations, mean revers
Forward rate agreements	Net present value method	Yield curves
Forward commodity agreements, currency forwards	Net present value method	Commodity rates/exchange rates, yield curves
Stock/index options, equity index/dividend futures	Black-Scholes, local volatility model, present value method	Equity prices, share volatility, dividends, interest rates (swap, repo)
Currency options	Garman-Kohlhagen (modified Black-Scholes)	FX rates, yield curves, FX volatility
Commodity options	Garman-Kohlhagen (modified Black-Scholes)	Commodity rates, yield curves, volatility
Credit derivatives	Intensity model, credit correlation model	Credit spreads, yield curves, correlations
Money market transactions	Net present value method	Credit spreads, yield curves
Securities repurchase transactions	Net present value method	Yield curves
Schuldschein loans, loans	Net present value method	Credit spreads, yield curves
Securities, forward security transactions	Net present value method	Securities prices, credit spreads, yield curves
Own bearer notes and Schuldschein loans issued	Net present value method	Yield curves, own credit spread
Investments and shares in affiliates	Net asset value method, discounted cash flow method, income value method	Capitalization rate, projected figures
Securitized transactions	Net present value method	Liquidity spreads, yield curves, prepayments, arrears and default rates, loss severity

The valuation and the use of material parameters for non-current assets and disposal groups held for sale, as well as liabilities from disposal groups, is performed in line with the original balance sheet items.

The financial instruments stated above are allocated to the following LBBW risk classes pursuant to IFRS 7:

Class	Financial instruments
Financial assets measured at fair value	
Financial assets mandatorily measured at fair value through profit or loss	
Trading assets	
Derivatives	Currency options, interest rate swaps and interest rate options, credit derivatives, equity/index options, equity index/dividend futures, commodity options
Equity instruments	Investment fund units, equities
Debentures and other fixed-income securities	Securities, forward security agreements, money market transactions, Schuldschein loans
Receivables	Schuldschein loans, money market transactions, loans
Financial instruments measured at fair value through profit or loss, not classified as held for trading, and equity instruments	
Equity instruments	Investment units, equity investments, shares in affiliates, equities
Debentures and other fixed-income securities	Bonds
Receivables	Schuldschein loans, money market transactions, loans
Positive fair values from hedging derivatives	Interest rate swaps and cross-currency interest rate swaps
Financial assets designated at fair value	
Debentures and other fixed-income securities	Money market transactions, bonds and debentures
Receivables	Schuldschein loans, money market transactions, loans
Financial assets measured at fair value through other comprehensive income	
Equity instruments	Investment units, equity investments, shares in affiliates, equities
Debentures and other fixed-income securities	Money market transactions, bonds and debentures
Receivables	Schuldschein loans, money market transactions, loans
Non-current assets and disposal groups held for sale	According to the respective balance sheet item
Financial assets measured at amortized cost	
Cash and cash equivalents	Cash, balances with central banks, public-sector bills and bills of exchange
Loans and advances to banks	Loans, Schuldschein loans, securities repurchase transactions, money market transactions
Loans and advances to customers	Loans, Schuldschein loans, securities repurchase transactions, money market transactions
Debentures and other fixed-income securities	Money market transactions, bonds and debentures
Non-current assets and disposal groups held for sale	According to the respective balance sheet item
Financial liabilities measured at fair value	
Financial liabilities mandatorily measured at fair value through profit or loss	
Trading liabilities	
Derivatives	Currency options, interest rate swaps and interest rate options, credit derivatives, equity/index options, equity index/dividend futures, commodity options
Delivery obligations from short sales of securities	Delivery obligations from short sales of securities
Deposits	Schuldschein loans, money market transactions
Securitized liabilities	Issued debentures
Negative fair values from derivative hedging instruments	Interest rate swaps and cross-currency interest rate swaps
Financial liabilities designated at fair value	
Securitized liabilities	Issued debentures
Other financial liabilities	Subordinated deposits, Schuldschein loans, money market transactions
Liabilities from disposal groups	According to the respective balance sheet item
Financial liabilities measured at amortized cost	
Deposits from banks	Schuldschein loans, loans, forwards, money market transactions, securities repurchase transactions
Deposits from customers	Schuldschein loans, loans, forwards, money market transactions, securities repurchase transactions
Securitized liabilities	Issued debentures, money market transactions
Subordinated capital	Bonds, participation certificates
Liabilities from disposal groups	According to the respective balance sheet item

To the extent possible, the securities in the trading portfolio are measured using market prices or liquid prices of the relevant OTC market. If no active market price is available, fixed-income securities are measured using the discounted cash flow method based on yield curves dependent on the rating or sector and credit spreads derived from market data.

Exchange-traded derivatives are measured using market prices. The fair values of equity-based derivatives are calculated uniformly using models on the basis of the portfolio approach.

The fair value of OTC derivatives is calculated using measurement models. A distinction is made between simple derivatives traded on liquid markets (such as interest rate swaps, cross-currency interest rate swaps and currency options) and complex derivatives that are traded on illiquid markets.

Simple derivatives traded on active markets are valued using recognized valuation measures that resort at most to non-observable parameters on a minor scale.

Financial instruments whose fair value is calculated on the basis of complex methods using non-observable parameters with a material influence on the valuation are classified in Level III of the measurement hierarchy. The observability of prices and valuation parameters is assessed in Risk Controlling as part of the valuation model validation and using the price review process, which is independent of trading. Valuations for which the parameters cannot be observed are examined by Risk Controlling to evaluate whether the valuation uncertainty from these parameters may have a material influence on a financial instrument's fair value. If they are found to have a material influence, the instrument is classified in Level III of the measurement hierarchy. The sensitivity analysis Level III section examines the influence of valuation uncertainty and the assumptions made on its calculation.

For certain complex interest derivatives, the interest-interest correlations required for measurement by reference to option price models are based on expert estimates which are partially gained from historical observations and partially from correlations derived from market prices. The »Correlation« parameter is assumed to be non-observable in this case. The gains or losses from the day 1 valuation are distributed over the term of the derivative.

LBBW uses the portfolio exception in accordance with IFRS 13.48 to measure derivatives in the following cases:

- The adjustment amount is calculated on the basis of the net risk positions for some fair value adjustments (e.g. close-out costs).
- When measuring counterparty risks in relation to OTC derivatives, for which netting agreements were entered into with the counterparty, the credit value adjustments (hereinafter referred to as CVA) were calculated on net positions.

The fair value of securitizations for which the market prices of market services providers are available is measured on the basis of these prices and classified as Level II (see fair value hierarchy). The fair values of securitization transactions for which current market prices are not sufficiently available (Level III) are calculated using measurement models. These are standard market models based on the discounted cash flow method.

If the fair value of a financial instrument calculated using measurement methods does not sufficiently take into account factors such as bid-offer spreads or close-out costs, model, credit or counterparty risk, the Bank calculates valuation adjustments. The methods used do not always take into account inputs observed on the market. Valuation adjustments are currently made within LBBW for the following issues in particular:

- Recognition of counterparty default risks from OTC derivatives (CVA).
- Adjustment to mid-price based valuations on the use of bid/ask prices, for example, as close-out valuation adjustments for OTC interest rate and credit derivatives
- Weaknesses in the models or inputs used, for example, model valuation adjustments for specific equities, interest rate and credit derivatives.
- Day one profit or loss on specific complex derivatives and loans measured at fair value

Refinancing effects represent a price component for unsecured derivatives and are included in the fair value measurement as a funding valuation adjustment (FVA). At LBBW, refinancing effects are taken into account in the measurement when calculating the present value by way of premiums on the discount rates.

If available, quoted prices on active markets are used to calculate the fair value of listed equity investments assigned to the category »Financial assets mandatorily measured at fair value through profit or loss« or »Financial assets measured at fair value through other comprehensive income«. For non-listed equity investments or if prices traded on an active market are not available, the fair value is measured using a measurement method. In these cases, LBBW essentially measures fair value using the net income value, the discounted cash flow or the net asset value method. The valuation method is selected on the basis of a fixed decision tree. The fair value of real estate leasing special purpose vehicles is measured on the basis of the DCF method. The net income value approach is used to measure all other major equity investments. If the application of the net income value approach entails considerable uncertainty or is not reliable due to a lack of data, the net asset value method is used, provided the equity investment's business activities are stable.

The fair value of assets and liabilities measured at amortized cost and assets and liabilities measured at fair value is calculated by discounting the future cash flows, taking into account rating-dependent spreads (exception: repurchase transactions). If rating-dependent spreads are derived from rating information obtained from external sources, this constitutes Level II classification. Rating information obtained from internal sources constitutes Level III classification. The fair values of receivables with a default rating are determined on the basis of expected future cash flows. The carrying amount is stated as the fair value of current assets and liabilities (e.g. current account assets and liabilities).

33. Fair value of financial instruments

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

Assets

EUR million	30 June 2020 Carrying amount	30 June 2020 Fair value	31 Dec. 2019 Carrying amount	31 Dec. 2019 Fair value
Financial assets measured at fair value				
Financial assets mandatorily measured at fair value	40,829	40,829	33,013	33,013
Trading assets	38,236	38,236	30,421	30,421
Derivatives	24,170	24,170	19,834	19,834
Equity instruments	601	601	910	910
Debentures and other fixed-income securities	5,762	5,762	4,752	4,752
Receivables	7,703	7,703	4,925	4,925
Financial instruments measured at fair value through profit or loss, not classified as held for trading, and equity instruments	1,157	1,157	1,218	1,218
Equity instruments	421	421	495	495
Debentures and other fixed-income securities	10	10	16	16
Receivables	726	726	707	707
Positive fair values from hedging derivatives	1,436	1,436	1,374	1,374
Financial assets designated at fair value	1,168	1,168	1,170	1,170
Debentures and other fixed-income securities	57	57	61	61
Receivables	1,111	1,111	1,109	1,109
Financial assets measured at fair value through other comprehensive income	34,260	34,260	30,245	30,245
Equity instruments	57	57	487	487
Debentures and other fixed-income securities	30,732	30,732	26,642	26,642
Receivables	3,471	3,471	3,116	3,116
Financial assets measured at amortized cost				
Cash and cash equivalents	33,009	32,932	18,331	18,331
Loans and advances to banks	56,263	56,864	55,801	56,865
Loans and advances to customers	115,794	118,721	110,320	119,461
Debentures and other fixed-income securities	948	941	1,082	1,083

Equity and liabilities

EUR million	30 June 2020 Carrying amount	30 June 2020 Fair value	31 Dec. 2019 Carrying amount	31 Dec. 2019 Fair value
Financial liabilities measured at fair value				
Financial liabilities mandatorily measured at fair value	30,158	30,158	26,959	26,959
Trading liabilities	27,484	27,484	24,422	24,422
Derivatives	20,796	20,796	17,035	17,035
Delivery obligations from short sales of securities	540	540	827	827
Deposits	371	371	192	192
Securitized liabilities	5,778	5,778	6,368	6,368
Negative fair values from derivative hedging instruments	2,673	2,673	2,537	2,537
Financial liabilities designated at fair value	6,579	6,579	6,757	6,757
Securitized liabilities	4,609	4,609	4,737	4,737
Other financial liabilities	1,969	1,969	2,020	2,020
Financial liabilities measured at amortized cost				
Deposits from banks	86,952	88,303	66,633	67,869
Deposits from customers	95,111	96,976	90,319	91,457
Securitized liabilities	43,637	43,180	38,815	39,541
Subordinated capital	5,807	5,575	6,123	6,483

See Note 19 for the detailed breakdown and measurement of assets and disposal groups held for sale.

34. Fair value hierarchy

In order to satisfy the disclosure requirements as set out in IFRS 13, this note includes both disclosures on financial instruments and disclosures on investment property.

The fair values used when measuring financial instruments and investment property are assigned to a three-level fair value hierarchy, taking into account the measurement methods and parameters used to carry-out this measurement. If parameters from different levels are used to determine the fair value, the resulting fair value is assigned to the next level whose parameters has a material effect on fair value measurement.

The three-level fair value hierarchy with Level I, Level II, and Level III – the terminology provided for in IFRS 13 – is specified as follows at LBBW:

- All financial instruments with unadjusted prices quoted on active markets are assigned to the first group (Level I).
- Derivatives measured using models, tradable credits, structured Group debt instruments designated at fair value, units in investment funds and certain corporate/financial and government bonds with automatic provision from market information systems (observable parameters) and liquid asset-backed securities are assigned to the second group (Level II).
- Level III comprises financial instruments for which one or more parameters are not based on observable market data and these data have a more than immaterial effect on the fair value of an instrument. These include complex OTC derivatives, certain private equity investments, certain high-grade structured bonds including illiquid asset-backed securities and structured securitizations.

The following table shows the breakdown of the risk classes by measurement method:

Assets

EUR million	Prices traded on active markets(Level I)		Measurement method – on the basis of externally observable parameters (Level II)		Measurement method – on the basis externally unobservable parameters (Level III)	
	30 June 2020	31 Dec. 2019	30 June 2020	31 Dec. 2019	30 June 2020	31 Dec. 2019
Financial assets measured at fair value						
Financial assets mandatorily measured at fair value through profit or loss	2,342	1,440	37,618	30,611	869	963
Trading assets	2,324	1,419	35,287	28,331	624	671
Derivatives	0	0	24,060	19,506	111	328
Equity instruments	367	321	235	589	0	0
Debentures and other fixed-income securities	1,956	1,097	3,806	3,655	0	0
Receivables	2	0	7,187	4,581	514	343
Financial instruments measured at fair value through profit or loss, not classified as held for trading, and equity instruments	18	21	895	905	245	292
Equity instruments	13	15	242	304	167	175
Debentures and other fixed-income securities	5	5	0	5	5	5
Receivables	0	0	653	596	73	112
Positive fair values from hedging derivatives	0	0	1,436	1,374	0	0
Financial assets designated at fair value	15	36	1,001	981	152	153
Debentures and other fixed-income securities	15	36	42	25	0	0
Receivables	0	0	960	956	152	153
Financial assets measured at fair value through other comprehensive income	22,391	20,356	11,816	9,497	52	392
Equity instruments	54	95	0	0	3	392
Debentures and other fixed-income securities	22,338	20,261	8,345	6,381	49	0
Receivables	0	0	3,471	3,116	0	0
Investment property	0	0	0	0	669	655

Equity and liabilities

EUR million	Prices traded on active markets (Level I) 30 June 2020	Prices traded on active markets (Level I) 31 Dec. 2019	Measurement method – on the basis of externally observable parameters (Level II) 30 June 2020	Measurement method – on the basis of externally observable parameters (Level II) 31 Dec. 2019	Measurement method – on the basis externally unobservable parameters (Level III) 30 June 2020	Measurement method – on the basis externally unobservable parameters (Level III) 31 Dec. 2019
Financial liabilities measured at fair value						
Financial liabilities mandatorily measured at fair value through profit or loss	459	822	29,557	25,961	142	176
Trading liabilities	459	822	26,883	23,424	142	176
Derivatives	0	0	20,655	16,859	142	176
Delivery obligations from short sales of securities	457	822	83	5	0	0
Deposits	2	0	368	192	0	0
Securitized liabilities	0	0	5,778	6,368	0	0
Negative fair values from derivative hedging instruments	0	0	2,673	2,537	0	0
Financial liabilities designated at fair value	0	0	6,169	6,293	409	464
Securitized liabilities	0	0	4,331	4,408	279	330
Other financial liabilities	0	0	1,839	1,886	131	134

Transfers between levels

If the main parameters used in fair value measurement change, the classification in the fair value hierarchy is also adjusted. As at the end of the reporting period, the necessary reclassifications between Levels I to III are carried out based on defined quality criteria for the market data used in measurement. Prompt availability, volume, executability and bid-offer spreads of the market data used play a particular role.

For financial instruments measured using models, LBBW's Risk Controlling identifies the model parameters required for fair value measurement. The models are subject to a regular validation process and the observability of the necessary model inputs is monitored in Risk Controlling's price review process. This allows those financial instruments to be identified that must be transferred between Levels II and III of the measurement hierarchy.

The following transfers were made between Levels I and II in the fair value hierarchy since the last reporting date:

Assets

EUR million	Reclassification from Level I to Level II		Reclassification from Level II to Level I	
	30 June 2020	31 Dec. 2019	30 June 2020	31 Dec. 2019
Financial assets measured at fair value				
Financial assets mandatorily measured at fair value through profit or loss	100	33	33	47
Trading assets	100	33	33	25
Derivatives	0	16	0	0
Debentures and other fixed-income securities	100	17	33	25
Financial instruments measured at fair value through profit or loss, not classified as held for trading, and equity instruments	0	0	0	22
Equity instruments	0	0	0	22
Financial assets designated at fair value	17	0	0	21
Debentures and other fixed-income securities	17	0	0	21
Financial assets measured at fair value through other comprehensive income	1,613	165	597	10
Debentures and other fixed-income securities	1,613	165	597	10

Equity and liabilities

EUR million	Reclassification from Level I to Level II	
	30 June 2020	31 Dec. 2019
Financial liabilities measured at fair value		
Financial liabilities mandatorily measured at fair value through profit or loss	2	33
Trading liabilities	2	33
Delivery obligations from short sales of securities	0	33
Securitized liabilities	2	0

In the first half of 2020, LBBW reclassified instruments from Level I to II of the fair value hierarchy as there were no longer quoted prices from active markets for the corresponding financial instruments. Instruments were also reclassified in the other direction as quoted prices from active markets became available again.

Development of Level III.

The development of the portfolios and profit and loss of financial instruments measured at fair value and investment property, which were calculated using measurement models on the basis of material unobservable parameters (Level III), is shown in the tables below. The unrealized profit and loss on Level III financial instruments is based on both observable and unobservable parameters. Many of these financial instruments are hedged for economic purposes by financial instruments assigned to other hierarchical levels. The compensating gains and losses from these hedges are not included in the above tables as IFRS 13 stipulates that only unrealized gains and losses on Level III financial instruments must be reported.

Assets

EUR million	Financial assets measured at fair value through other comprehensive income		Financial assets designated at fair value
	Equity instruments	Debentures and other fixed-income securities	Receivables
Carrying amount as at 1 January 2020	*392*	*0*	*153*
Gains and losses recognized in net consolidated profit/loss	0	0	– 2
Net interest income and current net income from equity instruments	0	0	– 3
Net gains/losses from financial instruments measured at fair value through profit or loss	0	0	2
Other earnings items	0	0	0
Income and expenses recognized in other comprehensive income[1]	– 46	0	0
Additions through acquisitions	0	0	0
Disposals through sales	– 343	0	0
Repayments/offsetting	0	0	0
Other changes	0	0	0
Reclassification to Level III	0	49	0
Reclassification from Level III	0	0	0
Carrying amount as at 30 June 2020	*3*	*49*	*152*
of which unrealized gains and losses recognized in net consolidated profit/loss for financial instruments held as at the reporting date	0	0	– 2
Net interest income and current net income from equity instruments	0	0	– 3
Net gains/losses from financial instruments measured at fair value through profit or loss	0	0	2
Other earnings items	0	0	0

1 Amounts recognized under »Revaluation reserve«.

	Financial assets mandatorily measured at fair value through profit or loss					Investment property	Non-current assets and disposal groups held for sale	Total
	Trading assets		Financial instruments measured at fair value through profit or loss, not classified as held for trading, and financial investments in equity instruments					
	Derivatives	Receivables	Equity instruments	Debentures and other fixed-income securities	Receivables			
	328	*343*	*175*	*5*	*112*	*655*	*57*	*2,221*
	2	9	- 7	0	- 6	17	0	14
	- 3	5	0	0	- 6	0	0	- 8
	5	5	- 7	0	0	0	0	5
	0	0	0	0	0	17	0	17
	0	0	0	0	0	0	0	- 46
	0	446	0	0	0	9	0	455
	0	0	- 2	0	0	0	- 50	- 396
	- 4	- 332	0	0	- 32	0	0	- 369
	0	0	0	0	0	- 12	- 7	- 19
	0	48	0	0	0	0	0	97
	- 215	- 1	0	0	0	0	0	- 216
	111	*514*	*167*	*5*	*73*	*669*	*0*	*1,741*
	2	8	- 7	0	- 7	17	0	11
	- 3	3	0	0	- 7	0	0	- 11
	5	5	- 7	0	0	0	0	5
	0	0	0	0	0	17	0	17

	Financial assets measured at fair value through other comprehensive income		Financial assets designated at fair value
	Equity instruments	Debentures and other fixed-income securities	Receivables
EUR million			
Carrying amount as at 31 December 2018	*425*	*0*	*153*
Restatement of prior year amounts	0	0	0
Carrying amount as at 1 January 2019	*425*	*0*	*153*
Gains and losses recognized in net consolidated profit/loss	0	0	1
Net interest income and current net income from equity instruments	0	0	– 3
Net gains/losses from financial instruments measured at fair value through profit or loss	0	0	3
Other earnings items	0	0	0
Income and expenses recognized in other comprehensive income[1]	– 33	0	0
Additions through acquisitions	0	0	0
Disposals through sales	0	0	0
Repayments/offsetting	0	0	0
Other changes	0	0	0
Reclassification to Level III	0	0	0
Reclassification from Level III	0	0	0
Transfers in accordance with IFRS 5	0	0	0
Carrying amount as at 31 December 2019	*392*	*0*	*153*
of which unrealized gains and losses recognized in net consolidated profit/loss for financial instruments held as at the reporting date	0	0	1
Net interest income and current net income from equity instruments	0	0	– 3
Net gains/losses from financial instruments measured at fair value through profit or loss	0	0	3
Other earnings items	0	0	0

1 Amounts recognized under »Revaluation reserve«.

Financial assets mandatorily measured at fair value through profit or loss					Investment property	Non-current assets and disposal groups held for sale	Total
Trading assets		Financial instruments measured at fair value through profit or loss, not classified as held for trading, and financial investments in equity instruments					
Derivatives	Receivables	Equity instruments	Debentures and other fixed-income securities	Receivables			
157	*1,012*	*186*	*5*	*339*	*697*	*23*	*2,998*
0	0	0	0	0	26	0	26
157	*1,012*	*186*	*5*	*339*	*723*	*23*	*3,024*
3	- 11	21	0	3	27	1	44
1	0	0	0	0	0	0	- 1
1	- 11	21	0	3	0	1	18
0	0	0	0	0	27	0	27
0	0	0	0	0	0	0	- 33
0	300	11	0	0	4	0	315
0	0	- 38	0	0	- 2	- 82	- 122
- 43	- 950	0	0	- 231	0	0	- 1,225
0	0	0	0	0	14	0	14
214	0	0	0	0	0	0	214
- 2	- 8	0	0	0	0	0	- 10
0	0	- 4	0	0	- 112	116	0
328	*343*	*175*	*5*	*112*	*655*	*57*	*2,221*
3	- 24	9	0	3	27	0	19
1	0	0	0	0	0	0	- 1
1	- 24	9	0	3	0	0	- 7
0	0	0	0	0	27	0	27

Equity and liabilities

EUR million	Financial liabilities designated at fair value – Securitized liabilities	Financial liabilities designated at fair value – Other financial liabilities	Financial liabilities mandatorily measured at fair value through profit or loss – Trading liabilities – Derivatives	Total
Carrying amount as at 1 January 2020	*330*	*134*	*176*	*640*
Gains and losses recognized in net consolidated profit/loss	– 4	– 3	– 27	– 34
Net interest income and current net income from equity instruments	– 3	– 1	1	– 3
Net gains/losses from financial instruments measured at fair value through profit or loss	– 1	– 2	– 27	– 31
Income and expenses recognized in other comprehensive income[1]	– 1	0	0	– 1
Disposals through sales	– 35	0	0	– 35
Repayments/offsetting	0	0	– 7	– 7
Reclassification from Level III	– 10	0	0	– 11
Carrying amount as at 30 June 2020	*279*	*131*	*142*	*551*
of which unrealized gains and losses recognized in net consolidated profit/loss for financial instruments held as at the reporting date	– 4	– 3	– 27	– 34
Net interest income and current net income from equity instruments	– 3	– 1	1	– 3
Net gains/losses from financial instruments measured at fair value through profit or loss	– 1	– 2	– 27	– 31

1 Amounts recognized under »Revaluation reserve«.

EUR million	Financial liabilities designated at fair value		Financial liabilities mandatorily measured at fair value through profit or loss	Total
	Securitized liabilities	Other financial liabilities	Trading liabilities	
			Derivatives	
Carrying amount as at 1 January 2019	*385*	*116*	*200*	*701*
Gains and losses recognized in net consolidated profit/loss	– 6	1	17	12
Net interest income and current net income from equity instruments	2	0	2	4
Net gains/losses from financial instruments measured at fair value through profit or loss	– 8	1	15	9
Disposals through sales	– 41	0	0	– 41
Repayments/offsetting	– 9	0	– 37	– 46
Reclassification to Level III	0	17	0	17
Reclassification from Level III	0	0	– 4	– 4
Carrying amount as at 31 December 2019	*330*	*134*	*176*	*640*
of which unrealized gains and losses recognized in net consolidated profit/loss for financial instruments held as at the reporting date	– 6	1	18	13
Net interest income and current net income from equity instruments	2	0	2	4
Net gains/losses from financial instruments measured at fair value through profit or loss	– 8	1	16	9

As parameters observable on the market in H1 2020 were no longer available or these were now considered to have a material influence on fair value, LBBW made reclassifications from Level II to Level III. Offsetting this, parameters that were again observable were available on the market or the influence of non-observable parameters on fair value was considered immaterial, and so LBBW made reclassifications from Level III to II.

Sensitivity analysis Level III

If the model value of financial instruments is based on unobservable market parameters, alternative parameters are used to determine the potential estimation uncertainty. For most of the securities and derivatives classified as Level III, only one unobservable parameter is included in the fair value calculation, preventing any interactions between Level III parameters. The overall sensitivity of the products whose fair value calculation includes more than one unobservable parameter is immaterial.Interactions between these inputs have therefore not been calculated.

For the investments classified as Level III, sensitivities are essentially calculated by shifting the individual beta factors up or down. If no beta factors are used in measurement, the sensitivities are calculated on the basis of the average percentage change in fair value. This is based on the upward/downward shift of the investments whose measurement is based on a beta factor.

The information is intended to show the potential effects of the relative uncertainty in the fair values of financial instruments, the measurement of which is based on unobservable parameters:

Assets

	Positive changes in fair value		Negative changes in fair value	
	Net gains/losses from financial instruments measured at fair value and revaluation reserve		Net gains/losses from financial instruments measured at fair value and revaluation reserve	
EUR million	**30 June 2020**	**31 Dec. 2019**	**30 June 2020**	**31 Dec. 2019**
Financial assets measured at fair value				
Financial assets mandatorily measured at fair value through profit or loss	20.1	19.6	– 18.8	– 19.0
Trading assets	10.9	8.8	– 10.3	– 8.2
Derivatives	1.7	3.4	– 1.4	– 2.8
Receivables	9.2	5.4	– 8.8	– 5.4
Financial instruments measured at fair value through profit or loss, not classified as held for trading, and equity instruments	9.2	10.8	– 8.5	– 10.7
Equity instruments	5.1	4.6	– 5.0	– 4.6
Receivables	4.1	6.2	– 3.6	– 6.1
Financial assets measured at fair value through other comprehensive income	0.0	26.4	0.0	– 23.5
Equity instruments	0.0	26.4	0.0	– 23.5
Total	*20.1*	*46.0*	*– 18.8*	*– 42.5*

Equity and liabilities

EUR million	Positive changes in fair value Net gains/losses from financial instruments measured at fair value and revaluation reserve 30 June 2020	 31 Dec. 2019	Negative changes in fair value Net gains/losses from financial instruments measured at fair value and revaluation reserve 30 June 2020	 31 Dec. 2019
Financial liabilities measured at fair value				
Financial liabilities mandatorily measured at fair value through profit or loss	4.1	3.6	- 4.8	- 4.5
Trading liabilities	4.1	3.6	- 4.8	- 4.5
Derivatives	4.1	3.6	- 4.8	- 4.5
Financial liabilities designated at fair value	0.5	0.6	- 0.3	- 0.4
Securitized liabilities	0.5	0.6	- 0.3	- 0.4
Total	*4.6*	*4.2*	*- 5.1*	*- 4.9*

Significant unobservable Level III parameters

The significant unobservable parameters of the financial instruments measured at fair value and classified as Level III and investment property are shown in the following tables.

The range shown below depicts the highs and lows in the non-observable parameters on which the valuations in the Level III category were based. As the financial instruments and investment property in question differ significantly, the range of certain parameters can be considerable. The parameter shifts in the table depict the changes in the unobservable parameters that are tested in the sensitivity analysis.

The parameter shifts in the table depict the changes in the unobservable parameters that are tested in the sensitivity analysis. They thus provide information on the range of alternative parameters selected by LBBW for its calculation of fair value.

Assets

30 June 2020 EUR million	Measurement methods	Significant unobservable parameters	Range	Parameter shift
Financial assets measured at fair value				
Financial assets mandatorily measured at fair value through profit or loss				
Trading assets				
Derivatives	Option price models	Interest rate correlation	-81 – 100%	relative – 20%/+10%
		Currency correlation	– 2%	absolute – 30%/+ 30%
	Net present value method	Liquidity spread (bp)	17	absolute – 5 bp /+ 5 bp
Receivables	Net present value method	Credit spread (bp)	91 – 281	relative -10 – 30%/+10 – +30%
Financial instruments measured at fair value through profit or loss, not classified as held for trading, and equity instruments				
Equity instruments	Net asset value method	n/a	n/a	n/a
	Discounted cash flow method	Capitalization rate	1.78% – 3.33%	Individually per instrument
	Net income value method	Beta factor	1.00 – 1.23	relative +5%/- 5%
Receivables	Net present value method	Credit spread (bp)	232 – 658	relative – 30%/+30%
Financial assets designated at fair value				
Receivables	Option price models	Interest rate correlation	54% – 100%	relative – 20%/+10%
Investment property	Discounted cash flow method	Rent dynamization/ indexing	1.50%	n/a
		Discounting interest rate	3.0% – 8.8%	
		Rental loss risk	1.0% – 4.0%	
		Basic maintenance costs	EUR 4.0 – 14.0/m^2	
		Administrative costs (% of target rent)	1.0% – 6.5%	

31 December 2019 EUR million	Measurement methods	Significant unobservable parameters	Range	Parameter shift
Financial assets measured at fair value				
Financial assets mandatorily measured at fair value through profit or loss				
Trading assets				
Derivatives	Option price models	Interest rate correlation	– 82% – 100%	relative – 20%/+10%
		Currency correlation	36%	absolute – 30%/+ 30%
	Net present value method	Liquidity spread (bp)	20	relative – 25%/+25%
Receivables	Net present value method	Credit spread (bp)	95 – 295	relative −10 – 30%/+10 – +30%
Financial instruments measured at fair value through profit or loss, not classified as held for trading, and equity instruments				
Equity instruments	Net asset value method	n/a	n/a	n/a
	Discounted cash flow method	Capitalization rate	1.23% – 3.33%	Individually per instrument
	Net income value method	Beta factor	1.00 – 1.23	relative +5%/– 5%
Receivables	Net present value method	Credit spread (bp)	232 – 800	relative – 30%/+30%
Financial assets designated at fair value				
Receivables	Option price models	Interest rate correlation	20% – 96%	relative – 20%/+10%
Financial assets measured at fair value through other comprehensive income				
Equity instruments	Net asset value method	n/a	n/a	n/a
	Discounted cash flow method	n/a	n/a	n/a
	Net income value method	Beta factor	1.05	relative +5%/– 5%
Investment property	Discounted cash flow method	Rent dynamization/ indexing	1.50%	n/a
		Discounting interest rate	3.45% – 9.2%	
		Rental loss risk	0.75% – 4.0%	
		Basic maintenance costs	EUR 5.00 – 17.90/m^2	
		Administrative costs (% of target rent)	1.0% – 6.5%	

Equity and liabilities

30 June 2020 EUR million	Measurement methods	Significant unobservable parameters	Range	Parameter shift
Financial liabilities measured at fair value				
Financial liabilities mandatorily measured at fair value through profit or loss				
Trading liabilities				
Derivatives	Option price models	Interest rate correlation	– 81% – 100%	relative – 20%/+10%
		Currency correlation	– 2%	absolute – 30%/+ 30%
	TRS model	Discount curve (bp)	56 – 141	relative – 30%/+30%
Financial liabilities designated at fair value				
Securitized liabilities	Option price models	Interest rate correlation	– 81% – 100%	relative – 20%/+10%
		Currency correlation	– 2%	absolute – 30%/+ 30%

31 December 2019 EUR million	Measurement methods	Significant unobservable parameters	Range	Parameter shift
Financial liabilities measured at fair value				
Financial liabilities mandatorily measured at fair value through profit or loss				
Trading liabilities				
Derivatives	Option price models	Interest rate correlation	– 82% – 100%	relative – 20%/+10%
		Currency correlation	36%	absolute – 30%/+ 30%
	TRS model	Discount curve (bp)	49 – 94	relative – 30%/+30%
Financial liabilities designated at fair value				
Securitized liabilities	Option price models	Interest rate correlation	– 81% – 96%	relative – 20%/+10%
		Currency correlation	36%	absolute – 30%/+ 30%

The valuation and the use of material parameters for non-current assets held for sale and disposal groups as well as liabilities from disposal groups is performed in line with the original balance sheet items.

Day one profit or loss

The use of unobservable parameters for the measurement of financial instruments can lead to differences between the transaction price and the fair value. This deviation is referred to as day one profit or loss, which is distributed throughout the term of the financial instrument through profit or loss.

Credit spreads and correlations between interest rates and default risks of different asset classes are not consistently observable on the market or cannot be derived from prices observed on the market. Market participants can have different opinions on the characteristics of the unobservable parameters used in these models, hence the transaction price can deviate from what LBBW considers to be the fair value.

LBBW recognizes day one profits for trading portfolios of interest rate-linked derivatives.

The table below shows the changes in day one profits for the first half of the 2020 financial year in comparison to the end of 2019, which were deferred as a result of applying material non-observable parameters for financial instruments carried at fair value:

EUR million	2020	2019
Balance as at 1 January	*1*	*0*
New transactions (allocations)	0	1
Balance as at 30 June/31 December	*0*	*1*

35. Equity instruments voluntarily measured at fair value through other comprehensive income

For some financial investments in equity instruments LBBW exercises the fair value through other comprehensive income option in accordance with IFRS 9.5.7.5. These essentially comprise equity investments on banks held with no intention to sell.

Equity instruments measured voluntarily at fair value through other comprehensive income amounted to EUR 57 million as at the end of the reporting period (previous year: EUR 487 million) (see Note 15). The decrease in the item is particularly due to the sale of a non-strategic minority interest. The sale allowed LBBW to adjust its shareholding in order to increasingly shift focus to customer business. Dividends of EUR 1 million (previous year: EUR 17 million) for equity instruments measured voluntarily at fair value through other comprehensive income were recognized in the first half of the financial year. As in the previous year, these relate entirely to equity instruments held at the reporting date. In the first half of the year and following the disposal, cumulative gains from equity instruments voluntarily measured at fair value through other comprehensive income were transferred from other comprehensive income to retained earnings (see Statement of comprehensive income).

36. Issuing activities

EUR million	30 June 2020	31 Dec. 2019
Securitized liabilities	43,637	38,815
Securitized liabilities designated at fair value	3,988	4,011
Securitized liabilities mandatorily measured at fair value through profit or loss	5,778	6,368
Total	*53,403*	*49,195*

During the period under review, new issues, essentially short-dated money market paper, with a nominal volume of EUR 595,594 million (previous year: EUR 984,441 million) were issued. Initial sales may fall substantially short of the issued nominal volume. During the same period the volume of buybacks amounted to a nominal amount of EUR 3,982 million (previous year: EUR 4,380 million) and the volume of repayments to a nominal of EUR 427,417 million (previous year: EUR 621,473 million).

Other information

37. Related party disclosures

The LBBW Group performs related party transactions in the ordinary course of business.The extent of these transactions is shown in the table below:

30 June 2020 EUR million	Shareholders	Members of the Board of Managing Directors and Supervisory Board	Non-consolidated subsidiaries	Associates	Joint ventures	Other related parties
Financial assets measured at amortized cost	575	4	1	138	0	1,351
Financial assets measured at fair value through other comprehensive income	534	0	23	171	0	101
Financial assets designated at fair value	18	0	0	0	0	0
Financial assets mandatorily measured at fair value through profit or loss	2,759	0	6	100	5	483
Total assets	*3,887*	*4*	*30*	*409*	*5*	*1,935*
Financial liabilities measured at amortized cost	2,561	9	52	132	11	12,532
Financial liabilities designated at fair value	0	0	0	0	0	21
Financial liabilities mandatorily measured at fair value through profit or loss	0	0	0	10	0	199
Provisions	0	0	0	0	3	0
Total equity and liabilities	*2,561*	*9*	*52*	*143*	*14*	*12,752*
Off-balance-sheet transactions	383	1	3	70	0	1,074

31 December 2019 EUR million	Shareholders	Members of the Board of Managing Directors and Supervisory Board	Non-consolidated subsidiaries	Associates	Joint ventures	Other related parties
Financial assets measured at amortized cost	548	3	3	200	0	1,322
Financial assets measured at fair value through other comprehensive income	526	0	22	171	0	99
Financial assets designated at fair value	18	0	0	0	0	0
Financial assets mandatorily measured at fair value through profit or loss	1,904	0	6	118	6	421
Other assets	0	0	1	0	0	0
Total assets	*2,997*	*3*	*33*	*489*	*6*	*1,842*
Financial liabilities measured at amortized cost	2,687	10	45	154	10	11,662
Financial liabilities designated at fair value	0	0	0	0	0	22
Financial liabilities mandatorily measured at fair value through profit or loss	0	0	0	53	0	201
Provisions	0	0	0	0	3	0
Total equity and liabilities	*2,688*	*10*	*46*	*207*	*13*	*11,885*
Off-balance-sheet transactions	331	1	10	86	4	930

Related party transactions resulted in material effects in net interest income of EUR 99 million (previous year: EUR 66 million).

38. Off-balance-sheet transactions

Contingent liabilities

EUR million	30 June 2020	31 Dec. 2019
Sureties and guarantee agreements	7,401	7,777
Other contingent liabilities	144	113
Total	*7,544*	*7,890*

Contingent liabilities chiefly comprise sureties and guarantee agreements:

- In accordance with Section 765(1) of the German Civil Code (BGB), a surety is a contractual obligation by the guarantor to the creditor of a third party to be responsible for the third party's obligation.
- Guarantee agreements are all contractual commitments that do not qualify as a surety and that concern the responsibility for a certain success or performance or for the non-occurrence of a certain disadvantage or damage.
- A documentary letter of credit is a promise given by a bank to make payment on presentation of specific documents.

This does not include financial guarantees.

In the event of objective indications of impairment, any loss is to be calculated using probability-weighted scenarios. The amount of the provision is determined by the present-value amount at which the Bank expects the beneficiary under a guarantee to make a claim against it, minus expected inflows e.g. from rights (rights of recourse, securities etc.).

In addition to legal risks, other contingent liabilities also include payment obligations towards the restructuring fund (bank levy) payable in part or in full on first demand in the event of resolution measures and for which cash collateral has been provided.

The German Deposit Guarantee Act (Einlagensicherungsgesetz – EinSiG), which came into force on 3 July 2015, governs the future financial resources of statutory and bank-related guarantee systems, including the bank-related guarantee system of the Sparkassen-Finanzgruppe. LBBW makes an irrevocable commitment to the owner of the bank-related guarantee system, German Savings Bank Association (Deutscher Sparkassen- und Giroverband – DSGV), to make further payments on first demand e. g. in the compensation case pursuant to Section 10 EinSiG, in addition to the annual contribution. Other contingent liabilities include collateral provided in this context.

Contingent claims

Mio. EUR	30.06.2020	31.12.2019
Rechtsstreitigkeiten	7	7
Insgesamt	*7*	*7*

39. Equity and total amount at risk

The following table shows the values under the currently valid regulations including transitional provisions in accordance with CRR.

EUR million	30 June 2020	31 Dec. 2019
Own funds	*18,433*	*18,492*
Tier 1 capital	13,252	13,257
of which common equity Tier 1 capital (CET 1)	12,026	11,790
of which additional Tier 1 capital (AT 1)	1,226	1,467
Supplementary capital (Tier 2)	5,181	5,235
Total amount at risk	*83,678*	*80,484*
Risk weighted exposure amounts for credit, counterparty and dilution risk, advance payments and other risk exposure amounts	71,192	69,347
Risk exposure amount for settlement and supply risks	1	19
Total exposure amount for position, foreign exchange and commodity risk	6,644	5,282
Total risk exposure amount for operational risks	4,692	4,661
Total amount of risk due to CVA	1,149	1,175
Total capital ratio (in %)	*22.0*	*23.0*
Tier 1 capital ratio (in %)	*15.8*	*16.5*
Common equity Tier 1 (CET 1) capital ratio (in %)	*14.4*	*14.6*

The common equity Tier I (CET 1) of the LBBW Group increased slightly as against the end of the previous year. This is essentially due to including net profit/loss for the year in 2019 in common equity Tier 1 capital and deducting the amount intended for distribution. Distribution is not possible at present due to regulatory requirements. The recognition of impairment losses audited in the 2019 annual financial statements also resulted in an increase. This was offset by the negative change in the revaluation reserve. Additional tier 1 capital (AT1) declined due to the fact that the threshold in accordance with the CRR transitional provisions decreases every year. Supplementary capital (T2) decreased slightly. The positive effect caused by the increased offsetting of silent partners' contributions that, in accordance with CRR, no longer fulfill the conditions for AT1 and instead meet only the conditions for T2, was again offset by the lack of the value adjustment surplus and the amortization of Tier 2 capital components on the basis of the number of days that have passed. The total amount of risk increased compared to the end of the previous year. For credit risk, this was driven chiefly by ratings adjustments for receivables measured using the internal rating approach. The increase is also partly a result of new transactions and general business performance. In addition, applying the new securitizations regulations once the transitional provisions expired also increased the total amount of risk. This was countered by the disposal of a non-strategic equity investment. For market risk, the main cause of the increase in market risks calculated using the internal model was the sharp rise in volatility of the parameters included in the risk calculation such as interest and credit spreads, as well as lower interest rates and an increase in securities exposures. For market risks calculated using the standard approach, exchange-traded debt instruments also rose primarily due to changes in ratings.

40. Events after the end of the reporting period

There were no events after the end of the reporting period.

04

Further Information

Responsibility statement

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

Stuttgart, Karlsruhe, Mannheim and Mainz, 18 August 2020

The Board of Managing Directors

RAINER NESKE
Chairman

KARL MANFRED LOCHNER

DR. CHRISTIAN RICKEN

THORSTEN SCHÖNENBERGER

VOLKER WIRTH

Review report

To Landesbank Baden-Württemberg, Stuttgart, Karlsruhe, Mannheim and Mainz/Germany
We have reviewed the condensed consolidated half-year financial statements of Landesbank Baden-Württemberg, Stuttgart, Karlsruhe, Mannheim and Mainz/Germany, which comprise the statement of financial position as at 30 June 2020, the statement of profit and loss and the statement of comprehensive income, the condensed statement of cash flows, the statement of changes in equity, and selected explanatory notes to the financial statements, as well as the interim group management report of the Company for the period from 1 January to 30 June 2020, which form part of the half-year financial report pursuant to Section 115 German Securities Trading Act (WpHG). The Company's executive directors are responsible for the preparation of the condensed consolidated half-year financial statements that comply with the International Financial Reporting Standards (IFRS) for interim financial reporting as adopted by the EU, and the interim group management report that complies with the requirements of the WpHG applicable to interim group management reports. Our responsibility is to express a conclusion on the condensed consolidated half-year financial statements and on the interim group management report based on our review.

We conducted our review of the condensed consolidated half-year financial statements and of the interim group management report in compliance with German Generally Accepted Standards for Reviews of Annual Financial Statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the review to obtain a certain level of assurance to preclude that the condensed consolidated half-year financial statements are not prepared, in all material respects, in accordance with the IFRS for interim financial reporting as adopted by the EU, or that the interim group management report is not prepared, in all material respects, in accordance with the requirements of the WpHG applicable to interim group management reports. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not been engaged to perform an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated half-year financial statements of Landesbank Baden-Württemberg, Stuttgart, Karlsruhe, Mannheim and Mainz/Germany, are not prepared, in all material respects, in accordance with the IFRS for interim financial reporting as adopted by the EU, or that the interim group management report is not prepared, in all material respects, in accordance with the requirements of the WpHG applicable to interim group management reports.

Stuttgart/Germany, 18 August 2020

Deloitte GmbH
Wirtschaftsprüfungsgesellschaft

signed Klaus Löffler
Wirtschaftsprüfer

(German Public Auditor)

signed Herbert Apweiler
Wirtschaftsprüfer

(German Public Auditor)

Note regarding forward-looking statements

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

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

Breaking new ground

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