

Reliable performance.  
Remuneration report of  
Landesbank Baden-Württemberg  
for financial year 2015.

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# 1. Introduction.

As a significant institution as defined in Section 17 of the Remuneration Ordinance for Institutions (InstitutsVergV) of 16 December 2013, Landesbank Baden-Württemberg (LBBW) is obligated to publish information on the structure of its remuneration systems. LBBW's disclosure duties as a CRR institution are governed by Section 16 (1) InstitutsVergV in conjunction with Article 450 of Regulation (EU) No. 575/2013 (CRR). The remuneration report refers solely to LBBW (Bank).

Accordingly, LBBW is obligated to release certain quantitative and qualitative information on employees whose activities have a major impact on the Bank's overall risk profile (these employees are referred to as Risk Takers). This remuneration report contains the information relevant to 2015 and sets out the remuneration paid to Risk Takers in connection with the remuneration systems for other employee groups at LBBW.

The remuneration report is broken down as follows:

- remuneration governance of LBBW
- structure of remuneration systems
- remuneration systems of LBBW
- remuneration figures

This report discloses the remuneration systems of LBBW (Bank). Group subsidiaries that are also required to make these disclosures do so in their own remuneration reports.

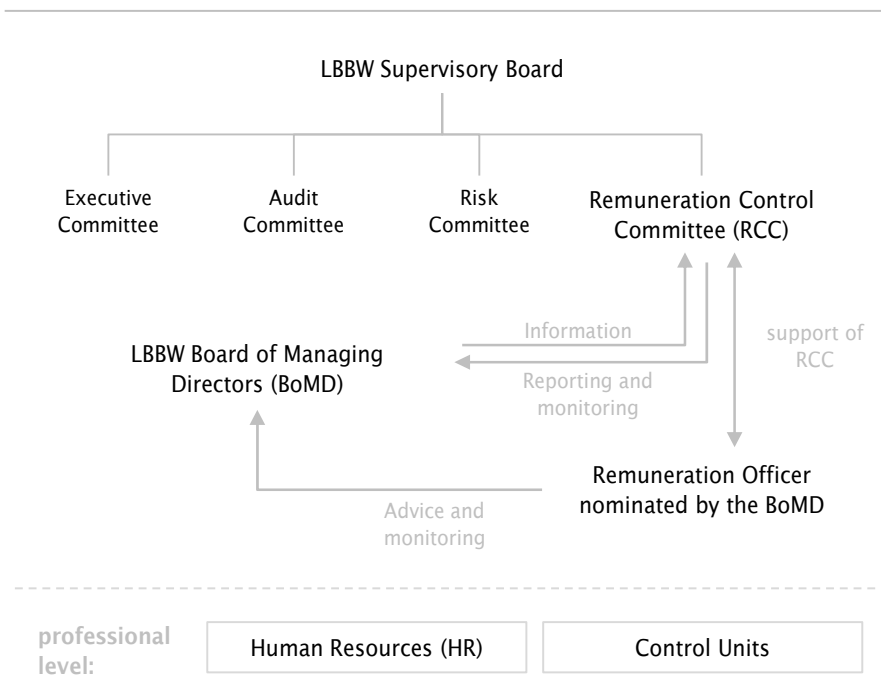
## 2. Remuneration governance of LBBW.

### 2.1 Structures of governance and decision-making processes with regard to remuneration.

As a major institution as defined in Section 17 InstitutsVergV, LBBW is obligated to meet not only the requirements pertaining to the structure and disclosure of remuneration, but also the special requirements of remuneration governance.

All matters relating to remuneration and compliance with regulatory requirements are decided upon and monitored via the remuneration governance structure:

**Remuneration governance structure at LBBW**  
(based on § 25d Sentence 12 KWG and the provisions of InstitutsVergV)



- The Supervisory Board makes decisions regarding the structure and implementation of the remuneration system for members of LBBW's Board of Managing Directors.
- As a committee established by the Supervisory Board, the Remuneration Control Committee monitors the structure of the remuneration systems and ensures that they comply with the business and risk strategies as well as the Group remuneration strategy within the scope of its control function.
- The Group's Board of Managing Directors makes decisions on the structure and implementation of the employees' remuneration systems. The individual members of the Board of Managing

Directors ensure implementation within the Group to the extent permitted by law through a Supervisory Board mandate exercised for the subsidiaries as well as through the shareholder mandate.

- The Remuneration Officer supports the Remuneration Control Committee/Supervisory Board in their control function and is continuously involved in the application of remuneration systems as well as new developments or enhancements.
- The Human Resources division operates at a specialized level in preparing the structure of the remuneration systems as well as the decisions made by the Board of Managing Directors and carries them out.
- The Control Units as defined by Section 2 (9) InstitutsVergV are regularly involved in structuring and monitoring the remuneration systems. At LBBW, these comprise the divisions of Compliance, Financial Controlling, Group Auditing, Human Resources, Group Risk Controlling and the entirety of Risk Management.
- Managers apply the instruments provided for performance management and remuneration as part of their leadership and management role.

## 2.2 Remuneration Control Committee.

The Remuneration Control Committee supports the Supervisory Board as a supervisory body in appropriately structuring the Bank's remuneration systems for managers and employees. It works closely with LBBW's Risk Committee and incorporates internal Control Units as well as other relevant business units. In particular, monitoring the appropriateness of remuneration systems is also among its tasks. In doing so, it especially takes into consideration their impact on the Bank's management of risk, capital and liquidity. The Committee also advises the Board of Managing Directors on fundamental issues pertaining to remuneration, points out to the Board any potentially undesirable developments in the remuneration systems and offers proposals to correct these.

The Remuneration Control Committee is composed of members of the Supervisory Board, thus enabling it to guarantee closer ties to the Supervisory Board and ensuring that it focuses on the Group's remuneration matters. It comprises a chairman and four members.

## Members of the Remuneration Control Committee in 2015.

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<b>Chairman</b>	<p><b>Christian Brand</b> (former Chairman of the Board of Managing Directors of L-Bank) Member since 9 June 2015, Chairman since 26 June 2015</p> <p><b>Hans Wagener</b> (auditor, tax consultant) until 31 May 2015</p>
<b>Deputy Chairman</b>	<p><b>Dr. Nils Schmid MDL</b> (Deputy Minister President, Minister of Finance and Economics of the State of Baden-Württemberg)</p>
<b>Members</b>	<p><b>Fritz Kuhn</b> (Mayor of the Baden-Württemberg state capital of Stuttgart)</p> <p><b>Peter Schneider</b> (President of Sparkassenverband Baden-Württemberg)</p> <p><b>Norbert Zipf</b> (employee representative of Landesbank Baden-Württemberg)</p>

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The Remuneration Control Committee held a total of five meetings in the year under review and, in doing so, fulfilled its statutory duties.

## 2.3 Remuneration Officer.

After hearing statements from the Supervisory Board, the Board of Managing Directors appointed an independent Remuneration Officer and a Deputy Remuneration Officer on 17 March 2014. The Remuneration Officer was re-appointed effective 1 September 2015, while a new Deputy Remuneration Officer was appointed effective 9 November 2015.

Section 24 InstitutsVergV stipulates the legally defined tasks of the Remuneration Officer as, in particular, continuous monitoring of the appropriateness of employee remuneration systems as well as support for the Supervisory Board and the Remuneration Control Committee in carrying out their monitoring and structuring duties. The Remuneration Officer is tasked with close coordination with the Remuneration Control Committee and its chair and also provides it with information upon request.

Once a year the officer drafts a report on the appropriateness of how the employee remunerations systems are structured (Remuneration Control Report), which he or she at the same time makes available to the entire Board of Managing Directors, the Supervisory Board and the Remuneration Control Committee.

The Remuneration Officer's activities focus on monitoring the appropriateness of remuneration systems, a function that largely deals with compliance with regulatory requirements. In doing so, he or she collaborates with the other control and monitoring functions at LBBW.

## 2.4 Relevant stakeholders.

There are other relevant stakeholders in addition to the functions described above:

### Owners.

In the cases expressly determined in the legislation governing LBBW as well as in its statutes, the Annual General Meeting in particular makes decisions on the remuneration of Supervisory Board members as well as the compensation of advisory board members for expenses. The owners are also represented on the Supervisory Board according to their shares of ownership in LBBW. This ensures that the owners are involved in structuring the remuneration systems and that they receive information on the remuneration of employees every year.

### Employees represented by the staff council.

The staff council is also involved in shaping the remuneration systems within the scope of the participation rights of the staff representation law of the state of Baden-Württemberg (Landespersonalvertretungsgesetz Baden-Württemberg (LPVG Ba-Wü)).

## 2.5 External consulting.

The consulting firm hkp was involved in the process of structuring the variable remuneration in particular as an expert in regulatory requirements of remuneration systems.

Advice was obtained from consulting company compgovernance on regulatory matters relating to remuneration governance.

LBBW takes part in external remuneration benchmarking studies every year and, with the annual remuneration process, examines the appropriateness of LBBW employees' remuneration in relation to the market conditions. Market benchmarks were obtained from independent external consultants Towers Watson, McLagan, hkp and Mercer in 2015.

## 3. Structure of remuneration systems.

### 3.1 Group remuneration strategy.

LBBW's Group remuneration strategy (pursuant to Section 4 InstitutsVergV) derives from the integrated HR strategy and describes the content-related framework for shaping the Group's remuneration structure in a way that takes into account the strategy and risks in the medium and long term. It provides the framework in which the remuneration systems are structured and implemented within the LBBW Group (Section 27 InstitutsVergV). It is derived from the overriding business and risk strategy in order to ensure that the strategic specifications are implemented in the remuneration systems and processes at LBBW. The remuneration parameters for variable remuneration thus support the ability to reach the targets derived from the business and risk strategy on a sustainable basis.

The overarching target of the remuneration strategy is to gear its employee remuneration to its risks in line with its strategy. In doing so, implementation of the regulatory requirements forms the core element of the Group remuneration strategy, which provides the framework for employee benefits and remuneration within the scope defined by governance requirements.

The key purposes of the group remuneration strategy are to:

- ensure that regulatory requirements are implemented and monitored in the instruments and processes,
- integrate performance management and remuneration processes into the principles of corporate governance and risk management,
- align employees' activities to specifically defined targets aimed at enhancing enterprise value,
- pursue risk-oriented performance management, i.e. taking on and managing reasonable risks,
- reward sustainable business performance using variable remuneration,
- secure competitive positions, thereby ensuring the Bank's appeal as an attractive employer in the labor market.

Against the backdrop of dynamic external factors of influence (such as a stricter regulatory environment for LBBW's business activities), the business and risk strategy is continuously being enhanced. This is reflected in the Group's remuneration strategy in that it is reviewed at least annually, but also in the event of changes to the strategy and is adjusted whenever necessary.

The Group remuneration strategy is coordinated with the Control Units, adopted by the entire Board of Managing Directors of LBBW and discussed on the Remuneration Control Committee.

The structure of the Group remuneration strategy as well as the establishment of the Remuneration Control Committee and the activities it performs have given LBBW a stable governance structure that ensures appropriate shaping, implementation and monitoring of the remuneration systems.



The Group remuneration strategy and information on the structuring of the remuneration systems are available to all employees on LBBW's Intranet via the Bank's written rules of procedure. All new employees at LBBW are also informed of the remuneration systems relevant to them.

## 3.2 Remuneration structure and elements.

LBBW's remuneration systems are geared towards performance, results and the market. The remuneration systems are structured in line with the broad-based observance of the relevant statutory requirements based on InstitutsVergV as well as additional rules. The variable remuneration incentives are closely linked to the Bank's sustainable performance and designed to avoid conflicts of interest with regard to customer interests. All remuneration systems are characterized by simplicity and clarity within the scope of legal requirements and at the same time guarantee that LBBW is able to remain competitive on the employment market.

LBBW grants (fixed and variable) remuneration and benefits in line with the market, with considerable weight placed on fixed remuneration. The remuneration systems are structured in a way that prevents incentives to take on unreasonably high risks. For this reason, LBBW has set caps for the ratio of fixed to variable remuneration components, which guarantee a reasonable balance between the two elements in order to avoid any significant dependence on variable remuneration. There is a 1:1 cap on the ratio of variable performance-based remuneration to fixed remuneration, which complies with the relevant regulatory requirements. The caps stated were not exceeded at any time in 2015. The average ratio of fixed remuneration to variable performance-based remuneration came to 1:0.6 for members of the Board of Managing Directors, 1:0.3 for Risk Takers and 1:0.1 for Non-Risk Takers (non-tariff).

Total employee remuneration consists of a fixed component, an additional variable component, if applicable, and other salary-related payments and benefits.

### Fixed remuneration.

Fixed remuneration is essentially based on the function exercised and its significance in accordance with applicable collective agreements or, for positions not covered by such agreements, market conditions. The duties and requirements of the position, the qualifications and skills required of the employees and sustained individual performance are among the factors relevant for determining remuneration. The level of fixed remuneration ensures that employees are not significantly dependent on the variable remuneration part. There are no employment contracts at LBBW that give rise to any obligation to pay severance when employees leave the Bank.

### Fixed remuneration for non-tariff employees.

Non-tariff employees, i.e. those not covered by collective agreements, and senior managers receive 12 monthly salary installments. The fixed remuneration is based on a benchmarking of the remuneration paid for the function by external competitors and internal remuneration on the one hand and on the basis of the employee's personal performance on the other hand.

In contrast to those covered by collective arrangements, position-based market indicators play a decisive role in the determination of remuneration for non-tariff employees and senior managers. This means that common market salaries are used as a benchmark for determining the fixed remuneration.

The benchmarks required for this purpose are prepared in consultation with the consulting companies previously mentioned. The benchmark thus calculated is used as a parameter for determining the remuneration and is backed up by an internal comparison.

The fixed salaries are reviewed once a year. The Board of Managing Directors decides on regular adjustments (adjustment of base salary for non-tariff employees) as at 1 July of each year for all non-tariff employees. In addition, there is an option for an individual increase, with the Board of Managing Directors deciding on a budget for this annually. The decision as to which employees receive an individual increase is made by the responsible manager. This largely depends on the employee's individual performance and the internal salary structure as well as market indicators.

The base salaries of senior managers and non-tariff employees saw a straight-line increase of 1.5% as at 1 July 2015. Moreover, a budget of 0.8% of the fixed salary total was available to the divisions for individual salary components for non-tariff employees. Individual salary components are provided in the following cases, in particular:

- promotion to a higher position,
- measures to bring the function in line with the applicable market indicators,
- sustained good to very good performance by the person holding the position.

**Fixed remuneration of employees subject to collective agreements for the banking industry and public sector.**

Fixed remuneration of employees subject to collective agreements is based on pay scales for the banking industry and public sector (TVöD) as well as transition agreements (ÜTV I and II). As a rule, employees covered by collective agreements receive 12 monthly salary installments as fixed remuneration plus a special pay-scale bonus. In addition, a company bonus (14th monthly salary installment) is paid.

The fixed salaries paid to employees covered by collective agreements are increased to match the industry-wide collective agreements for the banking industry and the public sector.

## Variable remuneration.

**Variable performance-based remuneration.**

Variable performance-based remuneration rewards the sustainable business performance<sup>1)</sup> of LBBW and the organizational unit as well as the above-average contribution of the individual non-tariff employee.

Variable performance-based remuneration for all senior managers and non-tariff employees is determined using a structured, discretionary process and takes into consideration the individual

1) Business performance combines a profitability variable (consolidated net income for the year after taxes in accordance with IFRS) with the actual risk. The risks are taken into account in the form of the cost of capital by including the minimum return on economic capital (OKap).

performance assessment made by the responsible manager. Since 2015, all senior managers and non-tariff employees have been subject to annual performance management. Employees subject to collective agreements do not receive variable performance-based remuneration.

Variable performance-based remuneration at LBBW follows the principles outlined below:

- Individual bonuses are awarded on the basis of the position, targets agreed upon and those attained as well as performance of responsibilities. It is based on the achievement of quantitative and qualitative targets without a mathematical correlation of bonuses to targets.
- In general, variable performance-based remuneration does not offer any incentives for taking inappropriately high risks. There is no correlation between the returns from risk-taking and the variable performance-based remuneration that can be earned.
- The budget available for bonuses depends on the business performance of the Bank and the organizational units. In addition to qualitative factors, this means that risk costs are factored in to make suitable allowance for the sustainability of this performance.

#### Impromptu awards.

In order to reward outstanding individual performance on a case-by-case basis and as promptly as possible, LBBW also sets aside a budget for impromptu awards for all employees.

#### Benefits.

Benefits are salary-related payments offered by LBBW to its employees in Germany largely on a voluntary basis, i.e. not as a result of entitlements as per the collective agreements. The benefits named below do not apply to the employees at LBBW's foreign branches. LBBW observes local statutory and company arrangements with respect to the granting of benefits at the individual units abroad.

The main remuneration-related benefits at LBBW are as follows:

- company pension,
- FlexiWertkonto (working time account) as per service agreement,
- company car.

With the exception of the company car, all of the aforementioned remuneration components are cash payments.

#### Company pension.

There are various pension plans in place as a result of the mergers and integration of different companies at LBBW. Commitments under these plans are granted either in the form of a service contract or, particularly in the case of commitments granted in the past, in the form of a comprehensive or individual commitment. These commitments cover old age, invalidity and death.

Defined benefit plans established by predecessor institutions remain in place. Since 1999, on the other hand, new employees are enrolled in a defined contribution plan in the form of a capital account plan. In addition to employer-funded pension commitments, deferred remuneration plans are also available, allowing employees to build up additional employee-funded entitlement.

There are a total of 12 901 employer-financed and 6 341 employee-financed claims for active employees. This includes claims held by former employees who have a vested entitlement to a pension from their employment contract with LBBW (Bank). In addition, there are a total of 4 447 employer-financed and 181 employee-financed pension commitments for retirees.

The company pension obligations for active employees in accordance with IFRS (International Financial Reporting Standards) as at the end of 2015 came to EUR 1.016 billion. The obligations for retired employees amounted to EUR 1.329 billion and the figure for former employees with a vested entitlement was EUR 0.246 billion.

#### LBBW FlexiWertkonto.

The LBBW FlexiWertkonto is a working time account. With this account, employees may defer certain parts of their remuneration for early retirement or for sabbaticals. The deferred remuneration is used by means of full early retirement or full leave of absence.

Using a web-based portal, employees can flexibly define how much of their remuneration they wish to defer. Depending on the purpose, the deferred remuneration can be invested in numerous LBBW funds and covered bonds. As at the end of 2015, a total of around EUR 43.5 million had been invested in the individual portfolios (plan assets). At the same time, retirement benefit obligations under IFRS were valued at EUR 51.8 million.

### 3.3 Fixing of Group-wide variable performance-based remuneration.

The total amount of variable performance-based remuneration is determined using a standardized, transparent and readily understandable process.

Prior to the measurement period, a bonus pool is created as part of business planning and is divided into members of the Board of Managing Directors, Risk Takers and Non-Risk Takers. The bonus pool is based on the LBBW Group's return on capital. In the case of members of the Board of Managing Directors and Risk Takers, it is determined using target bonus, whereas bonus pools are formed at a divisional level for Non-Risk Takers. Accordingly, a planned budget is established for each pool share prior to the start of the respective financial year.

Observance of the additional conditions is determined at the end of the measurement period, taking account of the Group's overall performance. The LBBW Group's ability to permanently maintain adequate equity and liquidity backing and to meet the capital buffer requirements of the German Banking Act is also reviewed prior to establishing the allocation budget.

The allocation budget for the members of the Board of Managing Directors comprises the cumulative total of the individual variable performance-based remuneration amounts derived from the performance management for the members of the Board of Managing Directors. The allocation budget for Risk Takers arises as a result of the performance management for Risk Takers comprising the business performance of the Bank, the organizational units and individual targets. The allocation budget for Non-Risk Takers is formed on the basis of the business performance of the Bank and the organizational units.

## 4. LBBW's remuneration systems.

### 4.1 Members of the Board of Managing Directors.

#### Responsibility.

The Supervisory Board makes decisions on the remuneration system, fixes the remuneration payable to the Board of Managing Directors and regularly reviews its appropriateness. The Remuneration Control Committee assumes an important advisory role in this respect and prepares the decisions of the Supervisory Board.

#### Principles of the remuneration system.

The remuneration parameters that determine variable remuneration are geared toward achieving the targets derived from the Bank's strategy on a sustained basis and support it in reaching its strategic company targets. In 2015, two-thirds of the variable performance-based remuneration for the members of the Board of Managing Directors were based on the Group's sustainable overall performance as determined by reference to its business performance over a period of three years and one-third on the individual contributions to performance made by the members of the Board of Managing Directors in the current year. The individual performance contribution is tied to target achievement agreements based on the business strategy and economic plan. Final allocation of the variable performance-based remuneration is based on the overall target achievement as determined in a resolution passed by the Supervisory Board in the following year.

In addition to the sustainability in the measurement of performance, the sustainability of the payout of the variable remuneration constitutes a key element of the remuneration for the Board of Managing Directors. Significant parts of the variable remuneration are based on sustainable business performance. For this reason, 60% of the variable annual remuneration is deferred over a period of four years and paid out on a time-proportionate basis (called deferrals). These may be reduced within this period or even lapse (malus) if the performance contributions are negative. 50% of the deferred amount is frozen for a period of one year and is tied to sustained growth (i.e. it is subject to an appreciation right). LBBW's sustained growth is measured by the change in the adjusted aggregate risk cover<sup>1)</sup>. To this end, the aggregate risk cover performance in each respective payout year is determined in a comparison with the base year (awarding of variable performance-based remuneration). 20% of the variable remuneration calculated is paid out immediately. The same amount is frozen for one year and is also tied during this period to any sustained growth in LBBW.

After the expiry of the deferral period, a malus review is performed at the Group and individual level prior to payment on the basis of the criteria defined in the remuneration model for the Board of Managing Directors.

<sup>1)</sup> Obtained from the aggregate risk cover less hybrid capital less capital measures plus dividends; see 4.2 Risk Takers.

In addition, a review is performed prior to payment to establish that the additional conditions (positive overall performance of the Group, no risk to appropriate capital backing, sufficient liquidity on the part of the Bank and compliance with the combined capital buffer requirements) have been satisfied.

The retirement benefits are essentially designed as defined-contribution benefits. Some members of the Board of Managing Directors have an arrangement taking the form of a final salary scheme. The amount is measured in accordance with the length of service on the Board.

The Supervisory Board regularly reviews the appropriateness of the Board remuneration model as well as the level and composition of the Board remuneration.

#### Remuneration of members of the Board of Managing Directors in 2015.<sup>1)</sup>

In 2015, remuneration of the members of LBBW's Board of Managing Directors consisted of fixed, non-performance-based remuneration, variable performance-based remuneration and other benefits (primarily the use of a company car with a driver). Moreover, the members of the Board of Managing Directors are eligible for inclusion in a company pension scheme.

The members of the Board of Managing Directors received fixed remuneration totaling EUR 5.65 million<sup>2)</sup> in 2015. In addition, they were granted variable performance-based remuneration of EUR 3.16 million in total. Of this, EUR 0.63 million was paid out immediately and another EUR 0.63 million will be due after a holding period of one year. The remaining EUR 1.90 million are deferred according to the remuneration system in place and are subject to payment conditions.

As at 31 December 2015, pension obligations according to IFRS for serving active members of LBBW's Board of Managing Directors as at the balance sheet date totaled EUR 15.4 million.

1) Differences due to rounding effects.

2) The total fixed remuneration includes the contractually approved salary as well as other fixed salary components such as use of a company car with driver.

## 4.2 Risk Takers.

### Responsibility.

On the basis of the statutory provisions set forth in InstitutsVergV, LBBW has established a separate variable remuneration model for «Risk Takers». In accordance with InstitutsVergV, Risk Takers are defined as employees who, by virtue of their activities, have a material impact on the Bank's overall risk profile.

The purpose of the system is to align the remuneration structure with the medium-term and sustainable performance of the company with due regard to risks. The Board of Managing Directors makes decisions on the remuneration system and sets the amount of individual target bonuses for each Risk Taker. Decisions regarding the individual adjustment of fixed remuneration and target achievement within performance management are made by the responsible managers. The structuring of the remuneration systems entails involvement of the Remuneration Officer and the Control Units together with the staff council within the framework of its co-determination rights.

### Identification of Risk Takers / risk analysis.

Due to LBBW's size, business activities, complexity and the risk content of its business activities, there are employees and senior managers at LBBW – in addition to the members of the Board of Managing Directors – whose activities have a material impact on the Bank's overall risk profile. They are referred to as Risk Takers.

They are identified as part of a comprehensive risk analysis documented in writing on the basis of the Regulatory Technical Standards (RTS) of the European Banking Authority (EBA) that came into force in June, e.g.

- size and nature of business activity,
- business volume,
- level of risk,
- revenue generated by the organizational unit,
- activities, hierarchical position,
- amount of remuneration to date and
- competitive situation on the labor market.

In addition to the members of the Board of Managing Directors in their capacity as managing directors, all members of the Aida Board of Managing Directors (BW-Bank, Rheinland-Pfalz Bank, Sachsen Bank) and all division heads are classified as Risk Takers. Moreover, department and group heads as well as experts in the Financial Markets, Corporate Banking and Retail Banking/Private Banking/Wealth Management segments, back office and Corporate Center, the branch managers in New York, London and Singapore as well as the managing directors of individual subsidiaries have been identified as Risk Takers.



In December 2014, 268 Risk Taker functions<sup>1)</sup> were identified for 2015. This figure includes the 251 Risk Takers identified in various selection steps, all seven members of the LBBW Board of Managing Directors and ten managing directors of subsidiaries. In accordance with the letter of the Bundesbank dated 27 July 2015, the members of the Supervisory Board are also classified as Risk Takers. LBBW's Supervisory Board has 21 members.

#### Principles of the remuneration system.

The remuneration parameters that determine variable remuneration are geared toward achieving the targets derived from the Bank's strategy on a sustained basis and support it in reaching its strategic company targets. The performance-based variable remuneration for Risk Takers is tied to performance management, which supports the successful implementation of the business and risk strategy at a Group, organizational unit and individual level. In addition, the performance management is systematically integrated in the corporate and risk management, in that the targets and parameters are annually derived from the business strategy and the medium-term planning (for the Group, the organizational unit and the individual).

In 2015, the variable performance-based remuneration for Risk Takers was based on the following sustained parameters, each of which accounts for one-third:

- the Group's sustainable overall performance as measured by its business performance over three years,
- the performance contributions of the organizational units to the Group's overall sustainable performance as measured by the enhanced business performance of units that originate business and division-specific figures for control and service units over three years,
- the specific performance contributions of individual Risk Takers in the current year.

The bonus is measured on the basis of overall target achievement. The final bonus is measured in the following year once the annual financial statements have been adopted and the Group's Board of Managing Directors has made a decision as to whether Risk Takers reached their overall target.

In addition to sustainability in performance measurement, the second central component of Risk Taker remuneration is sustainability of the payment of variable performance-based remuneration. Significant parts of the variable remuneration are based on sustainable business performance, provided that the variable remuneration totals at least EUR 50 000.

A figure of 60% (in the case of division heads and members of the Aida Board of Managing Directors) and 40% (in the case of department and group heads as well as non-tariff employees) of the variable performance-based remuneration of EUR 50 000 or more is deferred over a period of three years and paid out on a time-proportionate basis (called deferrals); in the event of any negative performance contributions, the deferred amount is reduced or forfeited (malus).

50% of the deferred amount is frozen for a period of one year and tied to sustained growth (i.e. it is subject to an appreciation right). The sustained growth in LBBW is measured by the change in the adjusted aggregate risk cover.

1) The difference between the number of Risk Taker functions and the actual number of Risk Takers is due to vacancies in budgeted positions.

To this end, the adjusted aggregate risk cover of the previous year is compared to that for the base year (awarding of bonuses) in the respective year of payment. 20% (in the case of division heads and members of the Aida Board of Managing Directors) and 30% (in the case of department and group heads as well as non-tariff employees) of the variable remuneration calculated is paid out immediately. The same amount is frozen for one year and is also tied during this period to any sustained growth in LBBW.

At the end of the deferral period, a review is conducted to determine if there are negative performance contributions on the basis of the criteria defined in the Risk Taker remuneration model. The malus review is performed using back testing at a Group level, at the level of the organizational unit and at an individual level. There is also a review for outstanding individual performance. Prior to payment, a check is performed for compliance with the additional conditions:

- positive overall performance of the Group and
- nothing jeopardizing adequate equity backing and
- sufficient liquidity of the Bank and
- fulfillment of the combined capital buffer requirements

The remuneration components from previous years deferred for payment in 2016 were reviewed for malus criteria. One malus circumstance was identified in 2016, as a result of which all deferred and frozen parts of the variable performance-based remuneration were forfeited. Calculation of sustained growth yielded an increase of 7.7% for the variable remuneration deferred from 2013 and one of 6.9% for the variable remuneration deferred from 2014.

#### Remuneration of Risk Takers in 2015.

Risk Takers were entitled to variable performance-based remuneration totaling EUR 11.75 million in 2015. Of this, EUR 6.56 million was paid out immediately, EUR 1.87 million are frozen for 12 months and EUR 3.32 million are deferred; of this amount, EUR 1.66 million were tied to sustained growth.

Following a sustainability review of the remuneration components that had been deferred in prior years (evaluation basis: 2014), a sum of EUR 0.74 million was released for payment to Risk Takers in June 2015 (and July 2015 for portions from 2011).

## 4.3 Non-Risk Takers.

### Responsibility.

At LBBW, Non-Risk Takers are considered all employees who do not fit the criteria of Risk Takers. A distinction is made between employees covered by collective agreements and those not covered (non-tariff employees). Decisions regarding the remuneration system are made by the entire Board of Managing Directors of LBBW and those regarding the setting of the remuneration payable and the target achievement in performance management for non-tariff employees are made by the responsible managers. The structuring of the remuneration systems entails involvement of the Remuneration Officer and the Control Units together with the staff council within the framework of its co-determination rights.

### Principles of the remuneration system.

In the event of above-average performance, senior managers and non-tariff employees may receive variable performance-based remuneration provided that the Board of Managing Directors has passed a decision providing for a corresponding budget for variable remuneration.

The variable performance-based remuneration is tied to compulsory performance management and thus to personal target achievement. The responsible manager assesses the individual employee's performance and determines the possible variable remuneration using standardized evaluation criteria. These are the employee's willingness to work, their method of work and the results of their work as well as the criteria of leadership and management when it comes to managers. The actual performance and assessment of this performance are discussed and calibrated by the managers on the basis of a structured discussion, the so-called panel. The findings of this panel form the basis for distributing the variable performance-based remuneration. The amount of the variable performance-based remuneration is determined by the management on this basis within the scope of the allocated budgets.

No performance-based variable remuneration was paid to employees covered by a collective agreement due to the commitment to pay a 14th monthly salary installment in 2015.

In order to still reward outstanding individual performance on a case-by-case basis and as promptly as possible, LBBW sets aside an additional budget for impromptu awards for all employees.

# 5. Remuneration figures.

## 5.1 Methodology.

The numerical part of the remuneration report sets out the remuneration granted to employees of LBBW (Bank) for 2015.

The summarized remuneration information is broken down by remuneration system in accordance with the business areas determined by the EBA in accordance with the »Guidelines on the Remuneration Benchmarking Exercise (EBA/GL/2014/08)«. This states that the downstream units (e.g. back office) are assigned to the respective business-initiating units for which they work. The central service units are categorized as »Corporate functions«. The »Independent control functions« category includes the independent control units of Group Risk Controlling, Group Auditing, Compliance and Credit Management and Processes. This results in differences over the definition of control units provided for in InstitutsVergV (see section 2.1). The assignment of the respective organizational units in the remuneration report deviates from the allocation rules applied in IFRS segment reporting in LBBW's Annual Report 2015.

Employees who were assigned to multiple units in 2015 as a result of internal fluctuation are allocated to the category in which they worked as at 31 December 2015. Employees who were on leave as at the balance sheet date are assigned to the category in which they last worked. The »All other« category includes remuneration components from 2015 for employees who were inactive year-round (for example on leave).

The remuneration data refers to 2015. This means that the figures shown include the fixed remuneration as well as the variable remuneration granted for 2015. In the case of Risk Takers, the portions that have been directly paid out, retained or deferred are indicated.

## 5.2 Overview of LBBW (Bank).

Total remuneration of all employees.

The total remuneration paid to 9 995 employees came to EUR 663.7 million for 2015. This is equivalent to an average of EUR 66.4 thousand per employee. Broken down by individual remuneration component, the following picture results:

Remuneration type	2015 total	Proportion of total remuneration
Fixed remuneration	EUR 617.1 million	93.0%
Variable remuneration <sup>1)</sup>	EUR 41.8 million	6.3%
Severance payments	EUR 4.8 million	0.7%

Fixed remuneration accounts for the greatest proportion of total remuneration by far.

All remuneration components at LBBW (Bank) are paid in cash. A distinction should be made here between cash payments made immediately and cash remuneration that has been frozen or deferred.

Remuneration of employees with high earnings.

A total of 7 employees received aggregate remuneration of over EUR 1 million for 2015:

EUR	Number of employees in 2015
<b>Total remuneration</b>	
1 000 000 to 1 500 000	6
1 500 000 to 2 000 000	1
2 000 000 or more	0

<sup>1)</sup> Variable remuneration granted for 2015 including impromptu bonuses and premiums from the improvement process paid out in 2015.

## 5.3 Breakdown by remuneration system.

The following table sets out the remuneration paid to employees by LBBW for 2015, broken down by remuneration system.<sup>1)</sup>

Key figures in EUR thousand (all data excluding subsidiaries)	Total	Members of the Board of Managing Directors		
		Risk Takers	Non-Risk Takers	
<b>Total remuneration</b>	<b>663 680</b>	<b>8 810</b>	<b>50 696</b>	<b>604 173</b>
Number of beneficiaries	9 995	7	248	9 740
<b>Fixed remuneration</b>	<b>617 098</b>	<b>5 650</b>	<b>38 950</b>	<b>572 497</b>
<b>Variable remuneration granted for 2015<sup>2)</sup></b>	<b>41 799</b>	<b>3 160</b>	<b>11 746</b>	<b>26 892</b>
Number of beneficiaries	4 809	7	244	4 558
of which amount paid out	34 083	632	6 559	26 892
of which amount retained with appreciation right	2 500	632	1 868	0
of which deferrals	5 215	1 896	3 319	0
of which with appreciation right	2 608	948	1 660	0
<b>Variable remuneration guaranteed upon taking up employment<sup>3)</sup></b>	<b>249</b>	<b>0</b>	<b>8</b>	<b>240</b>
Number of beneficiaries	21	0	1	20
<b>Severance payments for termination of activities based on individual agreements</b>	<b>4 783</b>	<b>0</b>	<b>0</b>	<b>4 783</b>
Number of beneficiaries	52	0	0	52
of which highest individual remuneration	1 108	0	0	1 108

Deferred portions from previous years.<sup>1)</sup>

EUR thousand	Total	Board of Managing Directors	Risk Takers
Variable remuneration from deferrals in previous years paid out during 2015 <sup>4)</sup>	1 496	759	738
Amount reduced due to application of malus/clawback regulations	83	0	83
Variable remuneration from deferrals of previous years not paid out <sup>4)</sup>	7 544	3 748	3 796
of which earned	1 041	493	548
of which not earned	6 502	3 255	3 247

1) Differences may arise as a result of rounding.

2) Variable remuneration granted for 2015 including impromptu awards and premiums from the implement process paid out in 2015.

3) Variable remuneration guaranteed when taking up employment is included in the item Variable remuneration granted for 2015.

4) In addition to active employees, this also includes employees who have already left the company and have claims from deferrals from previous years.

## 5.4 Breakdown by EBA definition.

The following table sets out the remuneration paid to employees (excluding members of the Board of Managing Directors) by LBBW for 2015, broken down by the EBA definition.<sup>1)</sup>

Figures in EUR thousand (all data excluding company management and subsidiaries)	Total (excluding members of the Board of Managing Directors)	Retail Banking and Corporates	Financial Markets	Corporate Functions	Independent Control Functions	All other
<b>Total remuneration</b>	<b>654 869</b>	<b>386 293</b>	<b>105 225</b>	<b>113 775</b>	<b>44 313</b>	<b>5 263</b>
Number of beneficiaries	9 988	6 167	1 276	1 603	666	276
<b>Fixed remuneration</b>	<b>611 447</b>	<b>363 589</b>	<b>94 891</b>	<b>106 417</b>	<b>42 680</b>	<b>3 870</b>
<b>Variable remuneration granted for 2015<sup>2)</sup></b>	<b>38 639</b>	<b>21 389</b>	<b>10 295</b>	<b>5 321</b>	<b>1 633</b>	<b>1</b>
Number of beneficiaries	4 802	2 866	842	782	310	2
of which amount paid out	33 451	19 397	8 377	4 166	1 510	1
of which amount retained with appreciation right	1 868	662	751	425	31	0
of which deferrals	3 319	1 330	1 166	731	92	0
of which with appreciation right	1 660	665	583	365	46	0
<b>Variable remuneration guaranteed upon taking up employment<sup>3)</sup></b>	<b>249</b>	<b>228</b>	<b>0</b>	<b>19</b>	<b>2</b>	<b>0</b>
Number of beneficiaries	21	17	0	3	1	0
<b>Severance payments for termination of activities based on individual agreements</b>	<b>4 783</b>	<b>1 316</b>	<b>38</b>	<b>2 037</b>	<b>0</b>	<b>1 392</b>
Number of beneficiaries	52	19	1	8	0	24
of which highest individual remuneration	1 108	169	38	1 108	0	696

- Retail Banking and Corporates<sup>4)</sup>: Sales to private customers / private banking, wealth management, Sparkassen and corporate customers, real estate business and the associated back-office and sales-supporting units.
- Financial Markets<sup>5)</sup>: Financial markets and the associated back-office units as well as research.
- Corporate Functions: All business activities not categorized to the operating units or to the independent control units according to the EBA definition, e.g. finance and human resources.
- Independent control functions: Control units according to the EBA definition.
- All other: Employees not active at any point during the year (for example, those on leave) with remuneration components from 2015.

1) Differences may arise as a result of rounding.

2) Variable remuneration granted for 2015 including impromptu awards and premiums from the implement process paid out in 2015.

3) Variable remuneration guaranteed when taking up employment is included in the item Variable remuneration granted for 2015.

4) Assignment of employees and their remuneration corresponds to the Retail Banking cluster according to the EBA definition.

5) Assignment of employees and their remuneration corresponds to the group »Investment Banking« according to the EBA's definition.

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