

Remuneration report of Landesbank Baden-Württemberg for financial year 2014.

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1. Introduction.

According to Section 16 of the Remuneration Ordinance for Institutions from 16 December 2013 (InstitutsVergV), Landesbank Baden-Württemberg (LBBW) is obligated to publish information regarding the structure of its remuneration systems. The disclosure requirements for the first time comply exclusively with Article 450 of Regulation (EU) No. 575/2013 (CRR) for LBBW as a CRR institution. The remuneration report refers solely to LBBW (Bank).

Article 450 CRR stipulates that LBBW is obligated to release certain quantitative and qualitative information for categories of 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 the 2014 financial year.

The remuneration report is broken down as follows:

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

2. Remuneration governance of LBBW.

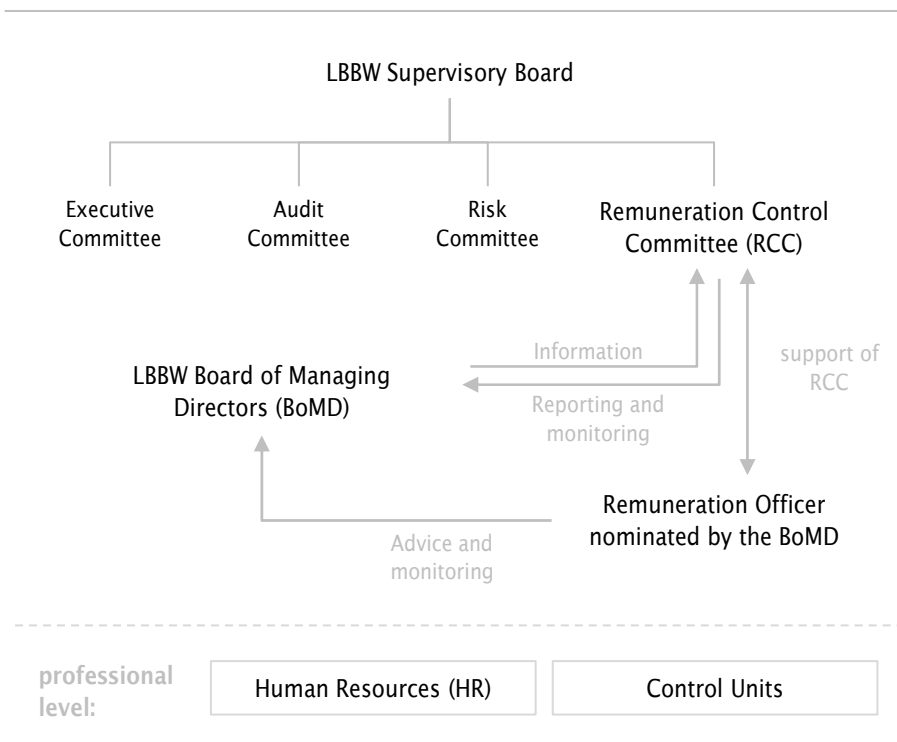
2.1 Structures of governance and decision-making processes with regard to remuneration.

As a major institution as defined in Section 17 of the Remuneration Ordinance for Institutions (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.

According to the new provisions of InstitutsVergV, LBBW's remuneration governance has been revised. The former Remuneration Committee was dissolved at the end of 2013. At the same time, in its meeting of 16 December 2013, LBBW's Supervisory Board resolved to expand the duties of the former Executive Committee to include those of the Remuneration Control Committee pursuant to Section 25d(12) of the German Banking Act (KWG) on the basis of the Statutes of Landesbank Baden-Württemberg (Section 15(2) No. 2). Moreover, the Board of Managing Directors appointed an independent Remuneration Officer and a deputy remuneration representative following the Supervisory Board consultation on 17 March 2014.

All matters relating to remuneration and compliance with regulatory requirements are decided upon and monitored via the amended 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 the Board of Managing Directors.
- The Remuneration Control Committee is the Supervisory Board Committee responsible for monitoring the structure of the remuneration systems and ensuring that they comply with the business and risk strategy 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 remuneration systems. The individual members of the Board of Managing Directors ensure implementation within the Group through a Supervisory Board mandate exercised for the subsidiaries as well as through the shareholder mandate.
- The Remuneration Officer supports the Remuneration Control Committee in its 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.

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 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 potential undesirable developments in the remuneration systems and offers proposals to correct these.

The Remuneration Control Committee is comprised 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.

Members of the Remuneration Control Committee in 2014.

Chairman	Hans Wagener (Auditor, Tax Consultant)
Deputy Chairman	Dr. Nils Schmid MDL (Deputy Minister President, Minister of Finance and Economics of the state of Baden-Württemberg)
Members	Fritz Kuhn (Mayor of the Baden-Württemberg state capital of Stuttgart)
	Peter Schneider (President of the Sparkassenverband Baden-Württemberg)
	Norbert Zipf (Employee Representative of Landesbank Baden-Württemberg)

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.

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 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.

Legal consulting firm CMS Hasche Sigle prepared expert legal opinions on regulations pertaining to labor and collective agreements in connection with the Group-wide implementation of the regulatory requirements.

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 and hkp in 2014.

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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 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.

LBBW aims 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 company value,
- pursue risk-oriented performance management, i.e. taking on and managing reasonable risks,
- reward sustained economic performance¹⁾ 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 remuneration strategy in that this strategy 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 among the Remuneration Control Committee.

1) Enhanced economic profit combines a profitability figure (consolidated annual financial statements after tax in accordance with IFRS) with the actual risk. In doing so, the risks are considered in the form of cost of capital, in that the minimum return on economic capital is also factored in.

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.

LBBW's remuneration system is geared towards performance, results and the market. In shaping the remuneration systems, implementation of the relevant statutory requirements based on InstitutsVergV is extensively ensured. The variable remuneration incentives are thus closely linked to the sustained performance of the company and are designed to avoid conflicts of interest with regard to customer interests (thus taking into consideration the BT8 minimum requirements for Compliance (MaComp)). Within the framework of the legally required parameters, all remuneration systems are characterized by simplicity and clarity and at the same time guarantee that LBBW is able to successfully establish a position among the competitive environment within the labor market.

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 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 for the ratio of variable performance-based remuneration to fixed remuneration, which complies with the relevant regulatory requirements. In 2014, the caps stated were not exceeded in a single case. The ratio of variable performance-based remuneration to fixed remuneration on average came to 0.6:1 for members of the Board of Managing Directors, 0.3:1 for Risk Takers and 0.1:1 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 qualification and skill requirements 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 the obligation to pay severance when employees leave the company.

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) every year. These then become effective for all non-tariff employees on 1 July of each year. 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 wage structure as well as market indicators.

The base salaries of non-tariff employees and senior managers saw a straight-line increase of 2.0% as at 1 July 2014. Moreover, a budget of 1.6% 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,
- sustainably good to very good performance by the person holding the position.

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

Fixed remuneration of employees subject to collective-bargaining agreements is based on pay scales for the banking industry and public sector 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 voluntary company bonus (14th monthly salary installment) is currently paid. The Board of Managing Directors makes a decision each year regarding approval of the payment of the 14th monthly salary installment. There are various legacy arrangements from predecessor institutions in force at LBBW; currently around one-third of LBBW staff are entitled to payment of the 14th monthly salary installment.

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 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 non-tariff employees and senior managers is determined using a structured, discretionary process and takes into consideration the individual performance assessment made by the responsible manager. Starting in 2015, annual performance management is carried out for all non-tariff employees and senior managers. 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 based on 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 remuneration that can be earned.
- The budget available for bonuses depends on the economic performance of the Bank and the organizational units. In addition to qualitative factors, 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 most important remuneration-related benefits at LBBW are the following:

- 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 integrations 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 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 10 314 employer-financed and 5 520 employee-financed claims for active employees. Furthermore, for employees who have already left the company but still have a vested entitlement to a pension from their employment contract with LBBW, there are 2 599 employer-financed and 817 employee-financed pension commitments. There are also 4 422 employer-financed and 144 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 2014 came to EUR 1.081 billion. The obligations for retired employees amounted to EUR 1.553 billion and the figure for former employees with a vested entitlement was EUR 0.483 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 2014, a total of around EUR 38.4 million had been invested in the individual portfolios.

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

Bonus pools are created using a standardized, transparent and comprehensible process. Within the scope of the business planning, the bonus pool created is divided into members of the Board of Managing Directors, Risk Takers and Non-Risk Takers. The bonus pool for Risk Takers and Non-Risk Takers is based on the LBBW Group's return on capital. In the case of Risk Takers, this is determined using target bonuses, whereas bonus pools for Risk Takers are created at a divisional level. A planned budget is established for each pool share prior to the start of the respective financial year.

The Bank's ability to permanently maintain adequate equity and liquidity backing and to meet the capital buffer requirements of the German Banking Act is reviewed prior to establishing the allocation budget. This review also takes into consideration the Group's overall performance.

For subsidiaries, the bonus pool is assessed with the same rationale for assessment implemented at LBBW. The standardized cornerstones used for pools of subsidiaries are compatible with the basic principles for bonus pool assessment used at LBBW (Bank). The subsidiary also reviews compliance with the additional conditions at LBBW (Bank) as the parent company.

The allocation budgets of the members of the Board of Managing Directors are a result of the performance management for members of the Board consisting of the Bank's success as well as individual targets. The allocation budgets of Risk Takers arise as a result of the performance management for Risk Takers comprising the success of the Bank, the organizational units and individual targets. The allocation budgets of Non-Risk Takers are formed on the basis of the success 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 and fixes the remuneration payable to the Board of Managing Directors. 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 focus of the system is on gearing remuneration to the attainment of sustained economic performance without offering incentives to take disproportionately high risks. For this reason, the Supervisory Board has, among other things, set a period of three years as an assessment period for the variable remuneration and a ratio of 1:1 as a reasonable cap for the ratio of fixed to variable remuneration.

The remuneration parameters that determine variable remuneration are geared towards achievement of the targets derived from the Bank's strategy on a sustained basis and support it in reaching its strategic company targets. The parameters are the Group's overall sustained performance, which is assessed by its economic profit over three years, and the individual Board members' performance contributions, which are measured and assessed with qualitative and quantitative factors. Performance contributions can be positive or negative and accordingly have an impact on variable remuneration. Sixty percent of the variable annual remuneration is deferred for 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. A malus result is determined using criteria set in the Board remuneration model at a Group and individual level. Fifty percent of the deferred amount is tied to sustained changes in value and is frozen for a period of one year. LBBW's sustained performance is measured by the change in the adjusted aggregate risk cover¹⁾. The aggregate risk cover performance in each respective payout year is determined in a comparison to the base year (awarding of a bonus).

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.

¹⁾ Obtained from the aggregate risk cover less hybrid capital less capital measures plus profit; see 4.2 Risk Takers.

Remuneration of members of the Board of Managing Directors in 2014.¹⁾

In 2014, remuneration of the members of LBBW's Board of Managing Directors consisted of fixed, non-performance based remuneration (including the use of a company car with driver) and a variable performance-based remuneration. 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 4.99 million²⁾ in the financial year. In addition, they were also granted variable performance-based remuneration of EUR 2.79 million in total. Of this, EUR 0.56 million were paid out to them immediately in the 2014 financial year and another EUR 0.56 million will be due after a holding period of one year. The remaining EUR 1.67 million are deferred according to the remuneration system in place and are subject to payment conditions.

Moreover, a sum of EUR 0.38 million was paid in the 2014 financial year to active members of the Board of Managing Directors and those who had already left the Board from amounts deferred from previous years following a review of the conditions for payment.

As at 31 December 2014, pension obligations according to IFRS for serving active Board members of LBBW as at the balance sheet date totaled EUR 14.19 million.

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 model is to align the remuneration structure with the medium-term and sustainable performance of the company with due regard for risks. The entire Board of Managing Directors at LBBW makes decisions on the shaping of the remuneration model in addition to setting the amount of individual target bonuses for each Risk Taker. Decisions regarding the individual adjustment of fixed remuneration and target achievement within the performance management are made by the responsible managers. The structuring of the remuneration systems entails involvement of the staff council, the Remuneration Officer and the Control Units.

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.

¹⁾ Differences may arise as a result of rounding.

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.

These are determined in the course of a written risk analysis based on the criteria stipulated in InstitutsVergV:

- 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 regarded as Risk Takers. Moreover, department and group heads as well as experts in the Financial Markets, Corporate Customers and Retail Customers/Private Banking/Wealth Management segments, back office and Corporate Center and the branch managers in New York, London and Singapore as well as the managing directors of individual subsidiaries have been identified as Risk Takers.

A total of 110 Risk Taker functions¹⁾ were identified in December 2013 for the 2014 financial year. This figure includes the 94 Risk Takers identified in various selection steps, all six members of the LBBW Board of Managing Directors²⁾ and ten managing directors of subsidiaries.

The European Banking Authority's (EBA) Regulatory Technical Standards (RTS), which came into effect in June, were applied for the first time in the risk analysis carried out in December 2014 for the 2015 financial year.

Principles of the remuneration system.

The current remuneration system for Risk Takers at LBBW was revised in 2014 and agreed to by the Board of Managing Directors. 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).

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

2) As of October 2014, there were seven members on the Board of Managing Directors at LBBW, meaning there were 111 identified Risk Taker functions.

In 2014, 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 the economic profit over three years,
- the performance contributions of the organizational units to the Group's overall sustainable performance as measured by the enhanced economic profit 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 from the current year.

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

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 performance-based remuneration are dependent on the company's long-term success, provided that the variable remuneration exceeds EUR 50,000.

For this reason, 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 remuneration 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).

Fifty percent of the deferred amount is retained for a period of one year and tied to sustained changes in value (i.e. with an appreciation right). The sustained performance of LBBW is measured using the change in the adjusted aggregate risk cover. In doing so, the adjusted aggregate risk cover of the previous year is compared to that from the base year (awarding of bonuses) in the respective year of payment. Twenty percent (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 calculated variable remuneration is paid out immediately. The same amount is frozen for one year and is also tied during this period to any sustained changes in the Bank's enterprise value.

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 personal performance and one to check for compliance with additional conditions.

The additional conditions pertain to the following parameters:

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

The remuneration proportions from previous years deferred for payment in 2015 were reviewed for malus criteria. No malus circumstances were identified in 2015. The malus circumstance identified in 2014 reduced the payment of the appreciation right from deferrals of previous years by EUR 1 thousand. Calculation of sustained changes in value yielded an increase of 0.7% in the value for 2014.

Remuneration of Risk Takers in 2014.

Risk Takers were entitled to variable remuneration totaling EUR 5.78 million in the 2014 financial year. Of this, an amount of EUR 3.04 million was paid out directly, EUR 0.93 million frozen for 12 months and EUR 1.80 million deferred; of this amount, EUR 0.90 million were tied to sustained changes in value.

Following a sustainability review of the remuneration components that had been deferred in prior years (evaluation basis: 2013 financial year), a sum of EUR 0.34 million was released for payment to Risk Takers in June 2014 (and July 2014 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 are made by the responsible managers. The structuring of the remuneration systems entails involvement of the staff council, the Remuneration Officer and the Control Units.

Principles of the remuneration system.

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

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. This is done on a structured, discretionary basis, meaning it is geared to the individual assessment. Using this as a basis, the amount of the variable performance-based remuneration is determined by the management within the scope of the allocated budgets.

Starting in 2015, the variable performance-based remuneration is tied to compulsory performance management and thus to personal goal achievement. In a discussion on the targets for 2015, the assessment criteria from 2014 were expanded to include function-specific and individual targets.

Performance-based variable remuneration was not paid to employees covered by a collective agreement due to the commitment to pay a 14th monthly salary installment in 2014.

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 remuneration report refers to LBBW (Bank). Employees and their remuneration are shown in a manner consistent with the EBA's determination of «business areas» according to the «Guidelines on the Remuneration Benchmarking Exercise» (EBA/GL/2014/08). This states that the downstream units (for example 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 in the definition of control units according to InstitutsVergV (see section 2.1). The assignment of the respective organizational units in the remuneration report deviates from LBBW's IFRS segment reporting.

Employees who were assigned to multiple units in the 2014 financial year as a result of internal fluctuation are allocated to the category in which they worked as at the balance sheet date 31 December 2014. 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 identifies remuneration components from 2014 for employees who were inactive year-round (for example on leave).

The remuneration data refers to the 2014 financial year. This means that the figures shown include the fixed remuneration as well as the variable remuneration granted for the 2014 financial year. 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 10 025 employees came to EUR 642.5 million for the 2014 financial year. This is equivalent to an average of EUR 64.1 thousand per employee. Broken down by individual remuneration component, the following picture results:

Remuneration type	2014 total	Proportion of total remuneration
Fixed remuneration	EUR 597.2 million	92.9%
Variable remuneration ¹⁾	EUR 37.1 million	5.8%
Severance payments	EUR 8.2 million	1.3%

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.

Article 450 CRR stipulates that the Bank is required to disclose the number of employees earning more than EUR 1 million:

EUR	Number of employees in 2014
Total remuneration	
1 000 000 to 1 500 000	4
1 500 000 to 2 000 000	1
2 000 000 or more	0

¹⁾ Variable remuneration granted for the 2014 financial year including impromptu bonuses and premiums from the implement process paid out in the 2014 financial year.

5.3 Breakdown by remuneration system.

The following table sets out the remuneration paid to employees by LBBW for the 2014 financial year, broken down by remuneration system.¹⁾

Key figures in EUR thousand (all data excluding subsidiaries)	Total	Members of the Board of Managing Directors	Risk Takers	Non-Risk Takers
Total remuneration	642 514	7 784	24 380	610 350
Number of beneficiaries	10 025	7	92	9 926
Fixed remuneration	597 228	4 994	18 598	573 635
Variable remuneration granted for the 2014 financial year²⁾	37 125	2 790	5 782	28 554
Number of beneficiaries	4 426	7	92	4 327
of which amount paid out	32 154	558	3 042	28 554
of which retained with appreciation right	1 489	558	931	0
of which deferrals	3 482	1 674	1 808	0
of which with appreciation right	1 741	837	904	0
Variable remuneration guaranteed upon taking up employment³⁾	891	75	265	551
Number of beneficiaries	38	1	6	31
Severance payments for termination of activities based on individual agreements	8 160	0	0	8 160
Number of beneficiaries	90	0	0	90
of which highest individual remuneration	698	0	0	698

Deferred portions from previous years.

EUR thousand	Total	Board of Managing Directors	Risk Takers
Variable remuneration from deferrals in previous years paid out during the 2014 financial year ⁴⁾	711	375	336
Amount reduced due to application of malus/clawback regulations	1	0	1
Variable remuneration from deferrals of previous years not yet earned ⁴⁾	5 558	2 817	2 741

1) Differences may arise as a result of rounding.

2) Variable remuneration granted for the 2014 financial year including impromptu awards and premiums from the improvement process paid out in the 2014 financial year.

3) Variable remuneration guaranteed when taking up employment is included in the item Variable remuneration granted for the 2014 financial year.

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 the 2014 financial year, broken down by the EBA definition.¹⁾

Key figures in EUR thousand (all figures excluding company management and subsidiaries)	Total (excluding members of the Board of Managing Directors)	Retail Banking and Corporates	Capital Markets Business	Corporate Functions	Independent Control Functions	All other
Total remuneration	634 731	382 123	96 645	117 496	31 034	7 433
Number of beneficiaries	10 018	6 387	1 196	1 628	446	361
Fixed remuneration	592 234	359 206	88 258	109 014	29 684	6 072
Variable remuneration granted for the 2014 financial year²⁾	34 335	18 110	8 017	6 731	1 350	127
Number of beneficiaries	4 419	2 716	707	773	219	4
of which amount paid out	31 596	16 923	7 373	5 887	1 286	127
of which amount retained with appreciation right	931	369	222	324	16	0
of which deferrals	1 808	818	422	520	48	0
of which with appreciation right	904	409	211	260	24	0
Variable remuneration granted upon taking up employment³⁾	817	692	15	28	5	77
Number of beneficiaries	37	31	1	3	1	1
Severance payments for termination of activities based on individual agreements	8 160	4 807	369	1 751	0	1 233
Number of beneficiaries	90	49	2	11	0	28
of which highest individual remuneration	698	324	290	399	0	698

- Retail Banking and Corporates⁴⁾: Sales to private customers / private banking, wealth management, Sparkassen and corporate customers, real estate business and the associated back-office and sales-supporting units.
- Capital Markets Business⁵⁾: 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 2014.

1) Differences may arise as a result of rounding.

2) Variable remuneration granted for the 2014 financial year including impromptu awards and premiums from the improvement process paid out in the 2014 financial year.

3) Variable remuneration guaranteed when taking up employment is included in the item Variable remuneration granted for the 2014 financial year.

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

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

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