



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

# Grown stability. The remuneration report 2016.

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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 applies 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 the 2016 financial year 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.

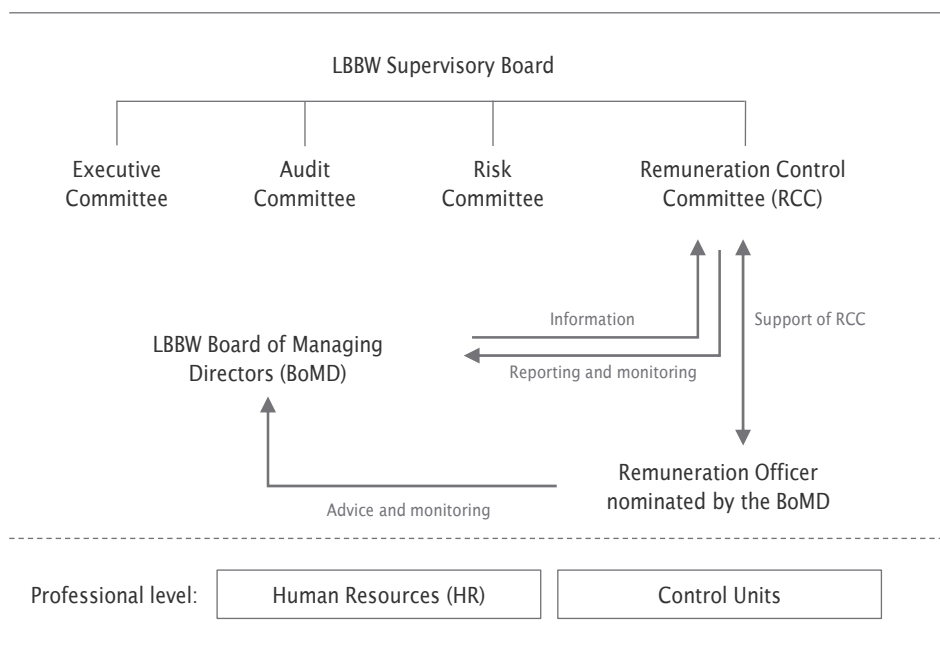
## 2. Remuneration governance of LBBW.

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

As a major institution as defined in Section 17 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.

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.
- The Remuneration Control Committee, a Supervisory Board committee, monitors the structure of the remuneration systems and their alignment with the business and risk strategies as well as the Group remuneration strategy as part 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 Board of Managing Directors members work as permitted by law on implementation in the Group through their positions on the Supervisory Boards of the subsidiaries or in their function as shareholders.

- 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. In addition, the Remuneration Officer is informed about the development of new/updating of existing remuneration systems at the subsidiaries.
- 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 within the meaning of Section 2 Para. 9 of the Remuneration Regulation for Institutions are regularly included in the structuring and monitoring of the remuneration systems. At LBBW, these are Compliance, Financial Controlling, Group Auditing, Human Resources, Group Risk Controlling and all of Risk Management.
- Executives utilize the performance management and remuneration tools provided 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, a deputy chairman and three members.

## Members of the Remuneration Control Committee in 2016.

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<b>Chairman</b>	<b>Christian Brand</b> (Former Chairman of the Board of Managing Directors of L-Bank)
<b>Deputy Chairman</b>	<b>Edith Sitzmann MDL</b> since 26 September 2016 (Minister of Finance of the State of Baden-Württemberg)
	<b>Dr Nils Schmid MDL</b> until 30 May 2016 (Former Minister)
<b>Members</b>	<b>Fritz Kuhn</b> (Mayor of the Baden-Württemberg state capital of Stuttgart)
	<b>Peter Schneider</b> (President of Sparkassenverband Baden-Württemberg)
	<b>Norbert Zipf</b> (Employee representative of Landesbank Baden-Württemberg)

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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 reappointed the Remuneration Officer on 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 remuneration 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 Act of the state of Baden-Württemberg (Landespersonalvertretungsgesetz Baden-Württemberg (LPVG Ba-Wü)).

## 2.5 External consulting.

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 Willis Towers Watson, McLagan and hkp in 2016.

## 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 goal of the remuneration strategy is to align 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 sustained economic 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 strategies are 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 sustained 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 such a way that the incentive to take inappropriately high risks is avoided. 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 2016. The average ratio of fixed remuneration to variable performance-based remuneration came to 1:0.3 for members of the Board of Managing Directors, 1:0.2 for Risk Takers and less than 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 salaries in line with the market 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 benchmarks calculated in this way are used as a standard for determining remuneration and are supplemented with internal comparisons.

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 employee receives 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 1.0% as at 1 July 2016. Moreover, a budget of 1.2% 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 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 (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 bargaining 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 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 defined and those attained as well as performance of responsibilities. It is based on the achievement of quantitative and qualitative 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 economic 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.

<sup>1)</sup> Economic success combines a profitability figure (consolidated profit/loss after tax in accordance with IFRS) with the actual risk. In this process, the risks are taken into account in the form of cost of capital by including the minimum return on economic capital (Ökap).

### 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.

Against the backdrop of persistently low interest rates, the very difficult market environment for the banking industry and an increasing need for pension provisions, LBBW analyzed the remuneration systems intensively over the course of 2016. The result showed that the LBBW capital account plans currently in force provide an option to integrate the relevant employees into a new system. LBBW is currently negotiating a new concept with the employee representatives that is in line with the market and fit for the future. Once negotiations are concluded, new entrants from 1 January 2017 will also be integrated into the new company pension system.

There are a total of 12,635 employer-financed and 6,379 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 4,521 employer-financed and 200 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 2016 came to EUR 1.124 billion. The obligations for retired employees amounted to EUR 1.39 billion and the figure for former employees with a vested entitlement was EUR 0.259 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 2016, a total of around EUR 51.2 million had been invested in the individual portfolios (plan assets). At the same time, retirement benefit obligations under IFRS were valued at EUR 60.8 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 success of the Bank, the organizational units and individual targets. The allocation budget for Non-Risk Takers is 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, 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 2016, 50% of the variable performance-based remuneration for the members of the Board of Managing Directors was based on the Group's sustained overall performance as determined by reference to its business performance<sup>1)</sup> over a period of three years and 50% on the individual contributions to performance made by the members of the Board of Managing Directors in the year under review. The individual performance contribution is tied to target achievement agreements based on the business strategy and business plan. Final calculation 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.

Alongside sustainability in the decision on performance, sustainability in the payout of the variable remuneration constitutes a key element for the remuneration for members of the Board of Managing Directors. Significant parts of the variable remuneration are based on sustained business success. For this reason, 60% of the variable remuneration for 2016 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. 50% of the deferred portion of the variable remuneration granted for 2016 is retained for a period of one year and is tied to sustained changes in value (i.e. it is subject to an appreciation right). LBBW's sustained performance is measured by the change in the adjusted aggregate risk cover<sup>2)</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 changes in the sustained performance.

1) Economic success combines a profitability figure (consolidated profit/loss after tax in accordance with IFRS) with the actual risk. In this process, the risks are taken into account in the form of cost of capital by including the minimum return on economic capital (Okap).

2) The basis is the aggregate risk cover anchored in the Bank's risk management, adjusted by certain items.

Following the expiry of the deferral period, the malus is reviewed using the criteria set out in the Board remuneration model at Group level and at individual level prior to payment. 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 of which is calculated according to the length of their service on the Board of Managing Directors.

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 2016.<sup>1)</sup>

In 2016, remuneration of members of LBBW's Board of Managing Directors consisted of fixed, non-performance-based remuneration and a performance-based variable component. In addition to the contractually agreed fixed salary, the fixed remuneration includes payments into the company pension scheme and all other benefits (essentially the use of a company car).

The members of the Board of Managing Directors received a contractually agreed fixed salary totaling EUR 5.7 million for their service on the Board in the 2016 financial year. The other benefits amounted to EUR 0.1 million. In addition, the Board members were paid variable performance-based remuneration of EUR 2.0 million in total (accrual), with this amount also including shares of deferred variable remuneration from previous years.

In addition, they were entitled to variable performance-based remuneration totaling EUR 1.80 million for the 2016 financial year. Of this, an amount of EUR 0.36 million was paid out directly, EUR 0.36 million frozen for 12 months and EUR 1.08 million deferred according to the applicable remuneration system; of this amount, EUR 0.54 million was tied to sustained changes in value.

As at 31 December 2016, pension obligations according to IFRS for serving active members of LBBW's Board of Managing Directors as at the reporting date totaled EUR 17.4 million.

<sup>1)</sup> Differences due to rounding effects.

## 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. Decisions regarding the remuneration system are made by the entire Board of Managing Directors of LBBW 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 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 who are risk takers in addition to the members of the Board of Managing Directors.

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), 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 Customers and Retail Customers/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 2015, 356 Risk Taker functions<sup>1)</sup> were identified for the 2016 financial year. This figure includes the 324 Risk Takers identified in various selection steps, seven members of the LBBW Board of Managing Directors and 12 managing directors of subsidiaries. The 21 members of the Supervisory Board were also defined as Risk Takers.

#### 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 2016, 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 economic performance over three years,
- the performance contributions of the organizational units to the Group's overall sustainable performance as measured by the enhanced economic 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 goal 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 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 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).

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

50% 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. 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 calculated variable performance-based remuneration is paid out immediately. The same amount is frozen for one year and is also tied during this period to any changes in the sustained performance.

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. 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. No malus circumstances were identified in 2017. The calculation of sustained changes in value was adjusted to the remuneration model for 2017. For Risk Takers that have consented to the adjustment with immediate effect, the new calculation of sustained changes in value was already applied to the deferred remuneration from previous years scheduled to be paid in 2016. For 2016, the old calculation gave a value increase of 8.8% for variable remuneration deferred from 2013, 8.1% from 2014 and 1.1% from 2015. According to the new calculation, there was a value increase of 1.3% for variable remuneration deferred from 2013, 3.6% from 2014 and - 0.8% from 2015.

#### Remuneration of Risk Takers in 2016.

Risk Takers were entitled to variable performance-based remuneration totaling EUR 10.78 million in the 2016 financial year. Of this, an amount of EUR 6.90 million was paid out directly, EUR 1.40 million frozen for 12 months and EUR 2.48 million deferred; of this amount, EUR 1.24 million were tied to sustained changes in value.

Following a sustainability review of the remuneration components which had been deferred in prior years, a sum of EUR 1.25 million was released for payment to the Risk Takers in June 2016.

## 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 goal achievement. The responsible manager assesses the individual employee's performance by evaluating the individual targets set at the start of the measurement period. 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 executive on this basis within the scope of the allocated budget.

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, as agreed in the service contract.

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 paid to employees of LBBW (Bank) in 2016.

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 Risk 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 2016.

Employees who were assigned to multiple units in the 2016 financial year as a result of internal fluctuation are allocated to the category in which they worked as at 31 December 2016. 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 2016 for employees who were inactive year-round (for example on leave).

The remuneration data refers to the 2016 financial year. This means that the figures shown include the fixed remuneration as well as the variable remuneration granted for the 2016 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 9,836 employees came to EUR 665.8 million for the 2016 financial year. This is equivalent to an average of EUR 67.7 thousand per employee. Broken down by individual remuneration component, the following picture results:

Remuneration type	2016 total	Proportion of total remuneration
Fixed remuneration	EUR 619.8 million	93.1%
Variable remuneration <sup>1)</sup>	EUR 32.6 million	4.9%
Severance payments	EUR 13.4 million	2.0%

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 four employees received aggregate remuneration of over EUR 1 million for 2016:

EUR	Number of employees in 2016
<b>Total remuneration</b>	
1 000,000 to 1 500 000	3
1 500 000 to 2 000 000	1
2 000 000 or more	0

<sup>1)</sup> Variable remuneration granted for the 2016 financial year including impromptu awards and premiums from the implement process paid out in the 2016 financial year.

## 5.3 Breakdown by remuneration system.

The following table sets out the remuneration paid to employees by LBBW for the 2016 financial year, 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>665 806</b>	<b>8 380</b>	<b>58 493</b>	<b>598 933</b>
Number of beneficiaries	9 836	8	312	9 516
<b>Fixed remuneration</b>	<b>619 781</b>	<b>6 364</b>	<b>47 623</b>	<b>565 794</b>
<b>Variable remuneration granted for 2016<sup>2)</sup></b>	<b>32 618</b>	<b>2 016</b>	<b>10 783</b>	<b>19 819</b>
Number of beneficiaries	4 812	8	307	4 497
of which amount paid out	27 127	403	6 904	19 819
of which amount retained with appreciation right	1 800	403	1 396	0
of which deferrals	3 692	1 210	2 482	0
of which with appreciation right	1 846	605	1 241	0
<b>Variable remuneration guaranteed upon taking up employment<sup>3)</sup></b>	<b>1 007</b>	<b>180</b>	<b>270</b>	<b>557</b>
Number of beneficiaries	31	1	3	27
<b>Severance payments for termination of activities based on individual agreements</b>	<b>13 406</b>	<b>0</b>	<b>87</b>	<b>13 319</b>
Number of beneficiaries	192	0	1	191
of which highest individual remuneration	280	0	87	280

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 the 2016 financial year <sup>4)</sup>	2 335	1 089	1 246
Amount reduced due to application of malus/clawback regulations	0	0	0
Variable remuneration from deferrals of previous years not yet earned <sup>4)</sup>	10 612	4 481	6 132
of which vested	1 256	519	737
of which not vested	9 357	3 962	5 395

1) Differences due to rounding effects.

2) Variable remuneration granted for the 2016 financial year including impromptu awards and premiums from the implement process paid out in the 2016 financial year.

3) Variable remuneration guaranteed when taking up employment is included in the item Variable remuneration granted for the 2016 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 2016 financial year, 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>657 426</b>	<b>389 457</b>	<b>105 656</b>	<b>110 715</b>	<b>44 488</b>	<b>7 109</b>
Number of beneficiaries	9 828	6 043	1 263	1 605	659	258
<b>Fixed remuneration</b>	<b>613 417</b>	<b>363 534</b>	<b>96 665</b>	<b>106 583</b>	<b>43 021</b>	<b>3 613</b>
<b>Variable remuneration granted for 2016<sup>2)</sup></b>	<b>30 602</b>	<b>17 181</b>	<b>8 371</b>	<b>3 760</b>	<b>1 290</b>	<b>1</b>
Number of beneficiaries	4 804	2 840	866	794	298	6
of which amount paid out	26 724	15 290	6 881	3 357	1 194	1
of which amount retained with appreciation right	1 396	647	573	152	24	0
of which deferrals	2 482	1 244	916	251	72	0
of which with appreciation right	1 241	622	458	125	36	0
<b>Variable remuneration guaranteed upon taking up employment<sup>3)</sup></b>	<b>827</b>	<b>732</b>	<b>0</b>	<b>45</b>	<b>50</b>	<b>0</b>
Number of beneficiaries	30	26	0	3	1	0
<b>Severance payments for termination of activities based on individual agreements</b>	<b>13 406</b>	<b>8 742</b>	<b>620</b>	<b>371</b>	<b>178</b>	<b>3 495</b>
Number of beneficiaries	192	127	5	5	3	52
of which highest individual remuneration	280	280	225	153	67	177

- 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.
- Capital Markets Business<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 2016.

1) Differences due to rounding effects.

2) Variable remuneration granted for the 2016 financial year including impromptu awards and premiums from the implement process paid out in the 2016 financial year.

3) Variable remuneration guaranteed when taking up employment is included in the item Variable remuneration granted for the 2016 financial year.

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 Investment Banking group according to the EBA's definition.

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