

LB  BW

Breaking New Ground

Remuneration report 2018



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1 Introduction

As a significant institution as defined in Section 17 of the Remuneration Ordinance for Institutions (InstitutsVergV), 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 InstitutsVergV in conjunction with Article 450 of Regulation (EU) No. 575/2013 (CRR).

This remuneration report contains the information relevant to the 2018 financial year. The relevant subordinate subsidiaries are included in the consolidated financial statements in accordance with Section 27 (1) InstitutsVergV.

The remuneration report is broken down as follows:

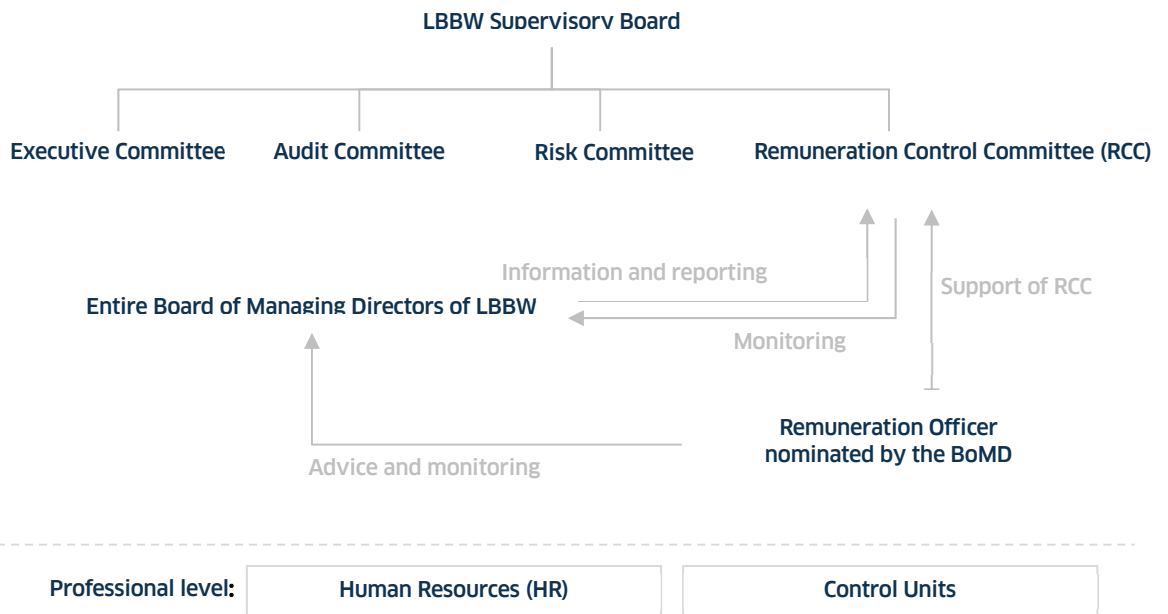
- remuneration governance of LBBW
- structure of remuneration systems
- remuneration systems of LBBW
- remuneration systems of subsidiaries
- remuneration figures

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 requirements of remuneration governance.

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



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

- The Supervisory Board makes decisions regarding the structure and implementation of the remuneration system for members of LBBW's Board of Managing Directors and monitors the appropriate structuring of the remuneration systems for the employees.
- The Remuneration Control Committee supports the Supervisory Board with these monitoring duties regards the remuneration systems and 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. 11 of the Remuneration Regulation for Institutions are regularly included in the structuring and monitoring of the remuneration systems. At LBBW, these are Group 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 five members.

Members of the Remuneration Control Committee in 2018

Chairman	Christian Brand (Former Chairman of the Board of Managing Directors of L-Bank)
Deputy Chairman	Edith Sitzmann (MDL) (Minister of Finance of the State of Baden-Württemberg)
Members	Fritz Kuhn (Mayor of the Baden-Württemberg state capital of Stuttgart)
	Martin Peters (Since 30 June 2018, Managing Partner of the Eberspächer corporate group)
	B. Jutta Schneider (Since 30 June 2018, Executive Vice President Global Services Delivery – SAP SE & Co. KG)
	Peter Schneider (President of 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

In accordance with the requirements of Section 23 InstitutsVergV, the Board of Managing Directors appointed an independent Remuneration Officer and a Deputy 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 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 also 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 2018.

3 Structure of remuneration systems

3.1 Group remuneration strategy

The Group remuneration strategy forms the basis for shaping the Group's remuneration system in a way that takes into account the strategy and risks in the medium and long term. It describes the contribution made by remuneration instruments and processes to the successful implementation of business and risk strategies, the HR strategy and the corporate culture. 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 overall goal of the Group remuneration strategy is to align 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:

- define a standardized framework for the design and implementation of processes for performance management as well as to shape and determine the remuneration structure,
- ensure that relevant regulatory requirements are implemented and monitored for remuneration systems for relevant subsidiaries,
- 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 during the year 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 and are sent to all subsidiaries. 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 2018. The average ratio of fixed remuneration to variable remuneration¹ came to 1:0.3 for members of the Board of Managing Directors and managers of subsidiaries identified as Risk Takers, 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 mentioned in this report. 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 or the Supervisory Board or shareholder for subsidiaries decides on regular adjustments (adjustment of base salary for non-tariff

¹ Calculating the ratio not including severance payments in variable remuneration

employees) each year. The adjustment is usually realized on as of 1 July of each year for all non-tariff employees. In addition, there is an option for an individual increase, with the decision-makers mentioned above 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 were increased at a flat rate of 2.0% as at 1 July 2018. In addition, a limited budget was made available to the divisions of LBBW (Bank) for individual salary components for non-tariff employees. Subsidiaries usually base their decisions on the parent company.

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 twelve monthly salary installments as fixed remuneration plus a special payment covered by the collective bargaining agreement. In addition, a company bonus (14th monthly salary installment) is paid at LBBW and several subsidiaries.

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

Performance-based variable remuneration rewards sustained economic performance of the LBBW Group, LBBW and the subsidiary and the employee's above-average contribution to performance.

It is tied to performance management, i.e. to individual performance assessment made by the responsible manager and 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. using quantitative and qualitative criteria.
- 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 level of bonus budget available depends on the sustainable performance of the Bank or the subsidiary and takes the risk adjustment into account appropriately.

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 in the report 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 specific benefits at the subsidiaries may differ from those of LBBW (Bank).

The main remuneration-related benefits at LBBW (Bank) and at most subsidiaries are as follows:

- company pension,
- FlexiWertkonto (working time account),
- company car.

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

Company pension

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

Since the merger with LBBW, employees have been granted a defined contribution plan in the form of a capital account plan. In addition to employer-funded commitments, deferred remuneration plans are also available, allowing employees to build up additional entitlements. Against the backdrop of persistently low interest rates, this commitment was completed as of 31 December 2016.

With the introduction of "LBBW VorsorgeFonds Plus" (investment savings account) as of 1 January 2017, LBBW introduced modern and attractive company pension scheme for its employees. The contributions provided by the employer as of 2017 or voluntarily changed by the employee as of January 2018 through deferred compensation are invested in two multi-asset funds in accordance with a life cycle model. Employees benefit in full from a positive performance and are hedged against a contribution guarantee if the employer loses their share of the price.

There are a total of 12,226 employer-financed and 7,312 employee-financed claims for active employees at LBBW (Bank). 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 4,542 employer-financed and 274 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 2018 came to EUR 1.12 billion. The obligations for retired employees amounted to EUR 1.64 billion and the figure for former employees with a vested entitlement was EUR 0.45 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 (Bank) funds and covered bonds. As at the end of 2018, a total of around EUR 63.9 million had been invested in the individual portfolios of LBBW (Bank) (plan assets). At the same time, retirement benefit obligations under IFRS were valued at EUR 74.6 million.

4 Remuneration systems of LBBW (Bank)

4.1 Realignment of remuneration systems

As part of LBBW's strategic realignment, the model for performance management and performance-based variable remuneration for the Board of Managing Directors and senior managers and employees were revised and applied for the first time in the year under review.

The focus was on the following objectives, which were implemented in the remuneration systems:

- Focus on corporate targets derived from the strategy at all levels of success
- Implementation of requirements from the amended InstitutsVergV
- Stronger incentives for cooperation within business areas
- Standardization of the remuneration model for senior managers and employees (replacement of the existing separate remuneration models for Risk Takers and Non-Risk Takers)

4.2 Board of Managing Directors

Principles of the remuneration system

Responsibility

The Supervisory Board makes decisions on the remuneration system for the members of the Board of Managing Directors, fixes the remuneration payable to them and regularly reviews its appropriateness. The Remuneration Control Committee assumes an important advisory role in this respect and prepares the resolutions 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 reaching its strategic company targets.¹ The variable performance-based remuneration for the members of the Board of Managing Directors in 2018 was guided by the Group's sustained overall success; it was measured on the basis of its economic success and the strategic components¹⁾ over a period of three years, accounting for 50%, and on the individual Board members' contribution to profit in the year under review, accounting for 50%. 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.

¹ Business focus, digitalization, sustainability, agility

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 granted for 2018, the year under review, will be deferred over a five-year period and paid out on a pro rate temporis basis (deferral); negative performance contributions can reduce the deferral or lead to its expiry (malus) or a clawback. 60% of the deferred proportion of the variable remuneration granted for 2018, the year under review, is subject to a blocking period of one year and aligned to sustained performance (i.e. subject to an appreciation right). LBBW's sustained performance is measured by the change in the adjusted aggregate risk cover with regard to the risk situation¹. 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). The current risk situation is assessed in line with the risk assessment in the overall risk report. Of the non-deferred proportion (40%) of the variable remuneration determined, 40% is paid directly. The remaining 60% of the non-deferred proportion of the variable remuneration is subject to a blocking period of one year and is tied during this period to any changes in the sustained performance of the Bank.

Following the expiry of the deferral period, the malus/clawback 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.

Remuneration 2018

In 2018, remuneration of members of LBBW's Board of Managing Directors consisted of fixed, nonperformance-based remuneration and a performance-based variable component. In addition to the contractually agreed remuneration, the fixed remuneration includes payments into the company pension scheme and all other benefits (essentially the use of a company car).

During the 2018 financial year, the members of the Board of Managing Directors received fixed contractually agreed remuneration totaling EUR 5.1 million for the performance of their duties on the Board. The other benefits amounted to EUR 0.1 million. In addition, variable performance-based remuneration totaling EUR 1.2 million was paid out (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 1.82 million for the 2018 financial year. Of this, an amount of EUR 0.29 million was paid out directly, EUR 0.44 million frozen for 12 months and EUR 1.09 million deferred according to the applicable remuneration system; of this amount, EUR 0.66 million was tied to sustained changes in value.

In 2018, EUR 2.0 million was transferred to the pension obligations for serving members of the Board of Managing Directors as an element of the fixed remuneration according to IFRS and recognized in the income statement. As at 31 December 2018, pension obligations according to IFRS for serving active members of LBBW's Board of Managing Directors as at the reporting date totaled EUR 18.1 million.

¹ The basis is the aggregate risk cover anchored in the Bank's risk management, adjusted for certain items.

4.3 Supervisory Board

Principles of remuneration for Supervisory Board members

The shareholders' meeting on 22 July 2011 resolved on the remuneration of Supervisory Board members as follows:

- The members of the Supervisory Board receive a fixed remuneration of EUR 25,000 for the respective financial year. The Chairman of the Supervisory Board receives twice and the Deputy Chairman one and a half times the fixed remuneration of a Supervisory Board member.
- Supervisory Board members who hold a seat on a committee receive further fixed remuneration of EUR 10,000 per committee. The Chairman of a committee receives 2.0 times and the Deputy Chairman 1.5 times the remaining fixed remuneration.
- Each Supervisory Board member receives an attendance allowance of EUR 200 to attend a meeting of the Supervisory Board or one of its committees.
- The Supervisory Board members are further reimbursed for the expenditure that they incur in connection with performing their duties as members of the Supervisory Board (travel expenses, individual bank-specific further training etc.).
- The Supervisory Board members are reimbursed for the value-added tax incurred that they have to pay as a result of their activity as a member of the Supervisory Board or a committee.
- The employee representatives on the Supervisory Board employed by LBBW also receive their employee compensation

The remuneration of Supervisory Board members who are not part of the Supervisory Board for a complete financial year is paid pro rata for their term in office.

Remuneration 2018

For the 2018 financial year, a total of EUR 0.95 million was paid in salaries and EUR 0.05 million in attendance allowances to the members of the Supervisory Board.

4.4 Employees and senior managers

Responsibility

Decisions regarding the remuneration system are made by the entire Board of Managing Directors. This entails involvement of the Remuneration Officer and the Control Units together with the Staff Council within the framework of its co-determination rights. It is the responsible managers' duty to make decisions regarding the setting of the individual remuneration payable and the target achievement in performance management for non-tariff employees.

In the year under review, a distinction was no longer made between "Risk Takers" and "Non-Risk Takers" in performance management or in the provision of performance-based variable remuneration. As of 2018, the new model for variable performance-based remuneration will continue to adhere to a conservative bonus policy.

Identification of 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. On the other hand, 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).

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). In January 2018, 357 Risk Taker functions were identified for the 2018 financial year.¹ This figure includes the 340 Risk Takers identified in various steps, six members of the LBBW Board of Managing Directors and 11 managing directors of subsidiaries. The 21 members of the Supervisory Board were also defined as Risk Takers.

In addition to the members of the Board of Managing Directors in their capacity as managing directors, all members of the BW Bank Board of Managing Directors, all directors and regional board members and all division heads are classified as Risk Takers. Moreover, department and group heads as well as experts in the Capital Markets Business, Corporate Center, Corporate Customers, Retail Customers/Savings Banks, Risk Management and Real Estate and Project Finance segments and the branch managers in New York, London and Singapore and the managing directors of individual subsidiaries have been identified as Risk Takers.

Independently of the harmonization of the remuneration model, due to the regulatory requirements of the InstitutsVergV, particular requirements apply to the sustainability of the remuneration when paying out performance-based variable remuneration to Risk Takers in excess of EUR 50,000.

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 remuneration parameters that determine variable remuneration are aligned toward achieving the targets derived from the Bank's strategy on a sustained basis² and support it in reaching its strategic company targets. It 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.

Due to the commitment to pay a 14th monthly salary installment, no performance-based variable remuneration was paid to employees covered by a collective agreement.

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.
² Business focus, digitalization, sustainability, agility

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.

For Risk Takers, significant parts of the variable performance-based remuneration are dependent on the company's long-term performance, provided that the variable remuneration totals more than EUR 50,000.

A figure of 60% (in the case of directors, division heads, regional board members and members of the BW Bank Board of Managing Directors, "group 1") and 40% (in the case of department and group heads as well as non-tariff employees, "group 2") of the variable performance-based remuneration of EUR 50,000 or more is deferred over a period of five (group 1) or three years (group 2) 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) or leads to a clawback.

60% (group 1) or 50% (group 2) of the deferred amount is retained for a period of one year and is tied to sustained performance (i.e. it is subject to an appreciation right). LBBW's sustained performance is measured by the change in the adjusted aggregate risk cover¹, taking account of the risk situation. To this end, the aggregate risk cover performance in each respective payout year is compared to that for the base year (awarding of bonuses). The current risk situation is assessed in line with the risk assessment in the overall risk report.

Of the non-deferred proportion of the determined variable remuneration, 40% (group 1) or 50% (group 2) is paid out immediately. The remaining 60% (group 1)/50% (group 2) of the non-deferred proportion of the variable remuneration is frozen for one year and also tied to the sustained performance of the Bank in this period.

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 payout model. The malus/clawback 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 2018 were reviewed for malus criteria. No malus circumstances were identified in 2018.

¹ The basis is the aggregate risk cover anchored in the Bank's risk management, adjusted for certain items.

4.5 Fixing of variable performance-based remuneration at LBBW (Bank)

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

Prior to the measurement period, a planned bonus budget is created as part of business planning and is divided into senior managers and employees.

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.

After the end of the financial year, based on the achievement of Group targets, subject to fulfillment of the business plan and compliance with the additional conditions pursuant to Section 7 InstitutsVergV, the Board of Managing Directors resolves on an allocation budget for variable performance-based remuneration for employees of LBBW (Bank).

The evaluation of the achievement of Group targets is based on the strategic company targets derived from the Bank's strategy, which are measured using various quantitative and qualitative parameters and given a projected level at the beginning of the year. After the measurement period, the achievement of these objectives is discussed and assessed by the entire Board of Managing Directors. Performance is measured for employees on an annual basis, so that there is a direct incentive for the performance provided in the year. The Group's success determines the amount of the allocation budget for the variable performance-related remuneration of all non-tariff employees and senior managers at LBBW (Bank). The allocation budget determined in this way sets the cap for the payment.

The performance of the organizational units is measured based on several clusters, to which each division at LBBW (Bank) is allocated. The aggregated measurement of performance at the level of the organizational unit strengthens cooperation between the units in a cluster.

To guarantee the supervisory function of Control Units and to avoid conflicts of interest, InstitutsVergV provides that the remuneration of employees in Control Units should not be determined according to the same remuneration parameters as those of employees in the units they control. For this reason, parameters are defined for each cluster. At cluster level, the evaluation of target achievement is carried out in the same way as for the Group, with cluster success determining the relational allocation of the allocation budget to the individual clusters. The allocation budget of the respective cluster is then distributed to senior managers and the allocated divisions.

5 Remuneration systems of subsidiaries

5.1 Relevant subsidiaries in accordance with Section 27 InstitutsVergV

Within the framework of the presentation of remuneration systems of the relevant subsidiaries, the following companies are considered in accordance with Section 27 of InstitutsVergV:

- LBBW Asset Management Investmentgesellschaft mbH
- LBBW Immobilien Group¹
- MKB Mittelrheinische Bank GmbH (since March 2019 MMV Bank GmbH)
- SüdLeasing GmbH
- SüdFactoring GmbH
- Süd Beteiligungen GmbH
- LBBW Venture Capital GmbH
- LBBW Service GmbH
- LBBW México
- BW-Immobilien GmbH (since June 2019 LBBW Corporate Real Estate Management GmbH)
- ALVG Anlagenvermietung GmbH

The basic principles below apply to them within the scope of the Group's remuneration strategy:

- The conservative business and risk approach taken by the LBBW Group is also reflected in the structuring of remuneration systems of the subsidiaries.
- ensure that relevant regulatory requirements are implemented and monitored for remuneration systems for relevant subsidiaries,
- The level of fixed remuneration ensures that employees are not significantly dependent on the variable remuneration component.
- Performance-based variable remuneration rewards sustained economic performance of the company and the employee's above-average contribution to performance. There is no correlation between the returns from risk taking and the variable remuneration that can be earned.
- Setting the total amount of variable remuneration is determined using a formal, transparent and readily understandable process.
- A key element for the provision of a bonus budget is the corresponding income, equity and liquidity situation of the company, but also of the LBBW Group. In the event that LBBW is in the restructuring phase, the amount of the bonus pool in the subsidiary can be reduced (down to zero).

LBBW Asset Management Investmentgesellschaft mbH has special status. As an asset management company, it is covered by the scope of Article 37 of *Kapitalanlagegesetzbuch* (KAGB - German Investment Code) and can be excluded from the scope of the requirements for the structure of remuneration systems under the amendment to InstitutsVergV, but not from the disclosure requirements.

¹ The LBBW Immobilien Group's subsidiaries LBBW Immobilien Management GmbH, LBBW Immobilien Development GmbH and IMBW Capital & Consulting GmbH were classified as relevant.

5.2 Description of the remuneration systems

As per the LBBW (Bank), total remuneration of employees at subsidiaries usually consists of a fixed component, an additional variable component, if applicable, and other salary-related payments and benefits.

Fixed remuneration

Fixed remuneration at subsidiaries is essentially based on the value of the position or function exercised in accordance with the applicable collective agreements or, for positions not covered by such agreements, market conditions and employee's personal performance.

As a rule, all employees receive 12 monthly salary installments as fixed remuneration. In addition to the 12 monthly salary installments, employees with fixed remuneration under collective bargaining agreements usually receive a collectively agreed special payment and a voluntary company bonus (14th monthly salary installment).

Variable remuneration

Variable performance-based remuneration

In addition to fixed remuneration, the subsidiaries generally grant variable performance-based remuneration, the amount of which is dependent in particular on the company's performance and the individual performance contribution.

A key element for the provision of variable remuneration is meeting ancillary conditions in accordance with Section 7 InstitutsVergV in the context of the LBBW Group. Thus, the income, equity and liquidity situation of the company and of the LBBW Group will be taken into account.

The individual performance contribution is usually determined based on a structured performance management process based on standardized performance criteria and additional individual targets. Thus, performance criteria and targets for employees are different from those of Control Units if the business model requires distinction.

In deviation thereof, all employees of LBBW México, except for the Managing Director, who were employed in the underlying financial year, should participate in profits due to local legal regulations (PTU¹). The local legislation takes precedence over the German InstitutsVergV. Granting variable performance-based remuneration as part of participation in profits requires sustained economic performance of LBBW México. This is granted to employees based on application regulations of the Participacion de los Trabajadores en las Utilidades (PTU - Taxes and Employees Statutory Profit Sharing)¹ and the statutory allocation keys. The variable performance-based remuneration of the Managing Director is based on the model described above.

The managing directors of LBBW Asset Management Investmentgesellschaft mbH, LBBW Immobilien Management GmbH, MKB Mittelrheinische Bank GmbH (since March 2019 MMV Bank GmbH), SüdFactoring GmbH and SüdLeasing GmbH are Risk Takers in the context of the LBBW Group. The performance assessment, fixing and payment of variable performance-based remuneration is based on LBBW's risk-taker remuneration model. In deviation thereof, the payment of the shares with value appreciation rights is based on the performance of a co-investment in one or more "typical" funds of LBBW Asset Management Investmentgesellschaft mbH.

¹ PTU = Participacion de los Trabajadores en las Utilidades; Ley Federal de Trabajo Article 123, 127D 129 and Ley del Impuesto sobre la Renta Article 16.

Furthermore, LBBW Asset Management Investmentgesellschaft mbH identifies other employees itself who have a significant influence on the risk profile of LBBW Asset Management Investmentgesellschaft mbH or individual funds (Risk Takers). Their disbursement is carried out at 40% over a 3-year period. Thus, 50% of the total variable remuneration is granted in the form of a virtual co-investment in one or more "typical" funds of LBBW Asset Management Investmentgesellschaft mbH and paid, taking an additional holding period of one year into account. Additional conditions of payment are reviewed at the final payment (malus).

Impromptu awards

In order to reward outstanding individual performance on a case-by-case basis and as promptly as possible, most subsidiaries also set aside a budget for impromptu awards for all employees in addition to the variable performance-based remuneration.

Benefits

Benefits are remuneration-relevant payments offered by subsidiaries to its employees largely on a voluntary basis, i.e. not as a result of entitlements as per the statutory claims or that extend beyond the statutory minimum. The payments are usually based on those of LBBW (Bank).

6 Remuneration figures

6.1 Methodology

The numerical part of the remuneration report sets out the remuneration paid to employees in the LBBW Group in 2018.

The summarized remuneration information is shown in different tables for Risk Takers and Non-Risk Takers. Remuneration data is broken down in accordance with LBBW's business areas. Thus, the distribution is broken down 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).

- **Financial Markets:** Financial markets and the associated Bank Office units as well as Research.
- **Retail banking and corporates:** Sales to private customers and private wealth management, Sparkassen and corporate customers, real estate business, leasing, factoring and the associated back-office and sales-supporting units. The subsidiaries MKB Mittelrheinische Bank GmbH (since March 2019 MMV Bank GmbH), SüdLeasing GmbH, SüdFactoring GmbH, ALVG Anlagenvermietung GmbH, LBBW México S. A. de C.V. SOFOM E.N.R. (LBBW México), Süd Beteiligungen GmbH, LBBW Venture Capital GmbH and the LBBW Immobilien Group¹ are also categorized here.
- **Asset Management:** All business activities and the back-office units of the subsidiary LBBW Asset Management Investmentgesellschaft mbH.
- **Corporate Functions:** All business activities, primarily service units, not categorized to the operating units or to the independent Control Units according to the EBA definition, e.g. Finance and Human Resources. These also include the subsidiaries LBBW Service GmbH and BW-Immobilien GmbH (since June 2019 LBBW Corporate Real Estate Management GmbH).
- **Independent control functions:** Independent Control Units according to the EBA definition: 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).
- **Other divisions:** Employees not active at any point during the year (for example, those on leave) with remuneration components from 2018.

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 2018.

Employees who were assigned to multiple units in the 2018 financial year as a result of internal fluctuation are allocated to the category in which they worked as at 31 December 2018. Employees who were on leave as at the balance sheet date are assigned to the category in which they last worked.

¹ The LBBW Immobilien Group's subsidiaries LBBW Immobilien Management GmbH, LBBW Immobilien Development GmbH and IMBW Capital & Consulting GmbH were classified as relevant.

The remuneration data refers to the 2018 financial year. This means that the remuneration data shown include the fixed remuneration as well as the variable remuneration granted for the 2018 financial year. Variable remuneration also includes the severance paid out in 2018. The remuneration data was assigned to the "fixed" and "variable" categories as defined by the InstitutsVergV.

In addition to wages and salaries, fixed remuneration also includes other fixed remuneration components as well as benefits in kind and third party services, e.g. company pension schemes, social security contributions, company cars and lunch vouchers. Variable remuneration also includes variable remuneration components such as bonuses, benefits in kind and third party services.

In the case of Risk Takers, the portions that have been directly paid out, retained or deferred are indicated.

6.2 Overview of LBBW Group

Total remuneration of all members of the Managing Board, managing directors of subsidiaries and employees at the LBBW Group

The total remuneration paid to 11,287 employees came to EUR 936.6 million for the 2018 financial year. Variable remuneration¹ for the 2018 financial year was granted to 8,018 beneficiaries.

Broken down by remuneration component, the following picture results:

Remuneration type	2018 total	Proportion of total remuneration
Fixed remuneration	EUR 871.7 million	93.1%
Variable remuneration	EUR 65.0 million	6.9%
<i>of which: severance</i>	<i>EUR 16.6 million</i>	<i>1.8%</i>

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

All remuneration components at LBBW are paid in cash. A distinction should be made here between cash payments made immediately and cash remuneration that has been frozen or deferred in equity-related instruments.

Remuneration of employees with high earnings

A total of nine employees received aggregate remuneration of over EUR 1 million for 2018:

EUR Total remuneration	Number of employees in 2018
1,000,000 to <1,500,000	7
1,500,000 to <2,000,000	0
2,000,000 or more	2

¹ The number of beneficiaries also includes employees who have received impromptu awards and rewards from the improvement process, commissions or benefits in kind and third party services (no severance payments paid out in the year under review).

6.3 Remuneration of Risk Takers at the LBBW Group (the Supervisory Board, the Board of Managing Directors, the Board of Managing Directors and managing directors of subsidiaries and employees)

The following table sets out the remuneration paid to Risk Takers at the LBBW Group by LBBW for the 2018 financial year, broken down according to the corresponding business areas.

Key figures in EUR thousand ¹	Members of the Supervisory Board	Board of Managing Directors and managing directors of subsidiaries	Business areas					
			Financial Markets	Retail banking and corporates	Asset Management	Corporate Functions	Independent control functions	All Other
			<i>Headcount of Risk Takers</i>	21	17	127	124	6
<i>Number of Risk Takers in FTEs</i>	21	17	124	123	6	50	18	0
of which: in senior management position in FTEs	n.a.	n.a.	5	33	0	10	4	0
Total remuneration	1,001	17,633	23,282	35,680	1,604	10,766	3,938	0
Fixed remuneration	1,001	12,197	20,819	28,572	1,071	9,260	3,459	0
of which in cash	1,001	12,197	20,819	28,572	1,071	9,260	3,459	0
of which: fixed in share or share- linked instruments	0	0	0	0	0	0	0	0
of which in other instruments	0	0	0	0	0	0	0	0
Variable remuneration for 2018²	0	5,436	2,463	7,109	533	1,505	479	0
of which in cash	0	3,075	1,824	4,715	314	1,149	428	0
of which: fixed in share or share- linked instruments	0	2,361	639	2,393	219	357	51	0
of which in other instruments	0	0	0	0	0	0	0	0
Total amount of deferred variable remuneration	0	2,361	564	2,152	175	338	51	0
of which in cash	0	944	256	957	88	143	20	0
of which: fixed in share or share- linked instruments	0	1,416	308	1,195	88	195	31	0
of which in other instruments	0	0	0	0	0	0	0	0

¹ Differences due to rounding effects.

² Variable remuneration granted for the 2018 financial year including impromptu awards and rewards from the improvement process paid out, commissions, benefits in kind and third party services in the 2018 financial year.

Key figures in EUR thousand ¹	Members of the Supervisory Board	Board of Managing Directors and managing directors of subsidiaries	Business areas					Independent control functions	All Other
			Financial Markets	Retail banking and corporates	Asset Management	Corporate Functions			
Additional information on variable remuneration									
Total amount of variable remuneration still outstanding as of the beginning of the year under review, which was awarded in previous years ²	0	9,149	3,697	5,024	555	1,482	356	248	
Variable remuneration from deferrals in previous years paid out during the 2018 financial year	0	2,279	852	1,128	109	318	75	131	
Total amount of variable remuneration still outstanding as of the end of the year under review, which was retained in previous years	0	6,870	2,846	3,896	446	1,164	280	116	
of which vested	0	1,230	429	573	71	163	39	43	
of which not vested	0	5,640	2,416	3,323	375	1,001	241	74	
Total amount of explicit ex post performance adjustment (malus and clawback) applied in the year under review to previously awarded remuneration	0	0	0	0	0	0	0	0	
Guaranteed variable remuneration ³	0	0	271	362	87	134	0	0	
Number of beneficiaries of guaranteed variable remuneration (heads)	0	0	2	3	1	3	0	0	
Severance payments paid out in the year under review ³	0	1,462	0	0	0	0	0	0	
Number of beneficiaries of severance payments paid out in the year under review (heads)	0	n.s. ⁴	0	0	0	0	0	0	
of which highest severance payment paid out to an individual person	0	n.s. ⁴	0	0	0	0	0	0	

1 Differences due to rounding effects.

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

3 Variable remuneration guaranteed when taking up employment and severance payments paid out in 2018 are included in the item "Variable remuneration for the 2018 financial year".

4 To ensure data protection, reporting only takes place in aggregated form.

6.4 Remuneration of Non-Risk Takers at the LBBW Group (managing directors of subsidiaries and employees)

The following table sets out the remuneration paid to employees who were not identified as Risk Takers in 2018. The following remuneration is paid by LBBW for the 2018 financial year, broken down according to the corresponding divisions.

Key figures in EUR thousand ¹	Managing directors of subsidiaries	Business areas					Independent control functions	All Other
		Financial Markets	Retail banking and corporates	Asset Management	Corporate Functions			
Total remuneration	3,471	97,302	504,619	21,599	145,072	63,390	7,275	
Fixed remuneration	2,672	93,084	475,992	19,423	139,446	59,873	4,793	
of which in cash	2,672	93,084	475,992	19,423	139,446	59,873	4,793	
of which: fixed in share or share-linked instruments	0	0	0	0	0	0	0	
of which in other instruments	0	0	0	0	0	0	0	
Variable remuneration for 2018²	798	4,218	28,628	2,176	5,626	3,517	2,482	
of which in cash	798	4,218	28,628	2,176	5,626	3,517	2,482	
of which: fixed in share or share-linked instruments	0	0	0	0	0	0	0	
of which in other instruments	0	0	0	0	0	0	0	
Guaranteed variable remuneration³	162	47	534	18	0	0	0	
Number of beneficiaries of guaranteed variable remuneration (heads)	3	2	34	1	0	0	0	
Severance payments paid out in the year under review³	0	1,390	7,726	0	1,661	1,948	2,432	
Number of beneficiaries of severance payments paid out in the year under review (heads)	0	13	93	0	12	12	27	
of which highest severance payment paid out to an individual person	0	204	261	0	470	270	400	

1 Differences due to rounding effects.

2 Variable remuneration granted for the 2018 financial year including impromptu awards and rewards from the improvement process paid out, commissions, benefits in kind and third party services in the 2018 financial year.

3 Variable remuneration guaranteed when taking up employment and severance payments paid out in 2018 are included in the item "Variable remuneration for the 2018 financial year".

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