

Remuneration report for the 2010 financial year of Landesbank Baden-Württemberg

1. Remuneration system

Overall employee remuneration consists of fixed remuneration, additional variable remuneration and further salary-relevant benefits.

1.1. Fixed remuneration

The fixed remuneration system is generally based on the value of the position or the function performed in line with applicable wage agreements or, if there are no such agreements, with market conditions. Matters relevant to remuneration include the employee's qualification and skills requirements. The level of fixed remuneration ensures that significant dependence on the variable remuneration does not arise for employees. Contracts of employment from which obligations for severance payments are derived do not exist at LBBW.

1.2. Benefits

Benefits are salary-relevant services and offers which LBBW extends to its employees primarily on a voluntary basis, i. e. not as a result of claims from wage agreements.

The most significant remuneration-relevant benefits at LBBW are:

- a) Company pension in accordance with operating agreement
- b) Flexiwertkonto (working time account) in accordance with operating agreement
- c) Company car
- d) Spontaneous recognition (incentives)

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

1.3. Performance-related, variable remuneration

Variable remuneration at LBBW is guided by the following principles:

- Individual bonuses are determined on the basis of function, target agreement and target achievement, as well as the fulfillment of tasks. They are based on the achievement of quantitative and qualitative goals and are not determined automatically.
- Variable remuneration generally does not provide incentive to enter into disproportionately high risk. There is no link between earnings from risk-taking and achievable variable remuneration.
- The size of the bonus budget available depends on the success of the bank and the organizational units. This success is measured by the development of the profit margins and contributions to the overall value by organizational units and the bank. Risk costs are thus incorporated alongside qualitative factors so as to give appropriate consideration to the sustainability of the success. The profit contribution of the back office and controlling units is based exclusively on the success of the bank as a whole.

2. Remuneration in 2010

2.1. Fixed remuneration in 2010

The basic salaries of the non-tariff employees and senior staff were raised by a linear 2.0%. Furthermore, the divisions had a budget of 2.0% of fixed salaries for individual salary measures in the non-tariff area.

2.2. Variable remuneration in 2010

No bonuses were paid at LBBW in 2009 due to the profit situation.

There were still contractually fixed bonus agreements amounting to EUR 3.6 million for 78 employees from previous years, which were paid out in 2010. No bonus guarantees were issued in 2010.

The focus in 2010 was on the implementation of regulatory requirements (most recently the German Institution Remuneration Ordinance or InstitutsVergV, dated October 13, 2010) with regard to remuneration for employees with a significant influence on the overall risk profile.

2.3. Regulatory requirements and implementation status

The Institution Remuneration Ordinance (InstitutsVergV) which took effect on October 13, 2010 again goes far beyond the regulatory requirements of the BaFin circular 22/2009 in terms of remuneration systems in financial services institutions and their disclosure obligations. The regulatory requirements and implementation status at LBBW are listed below:

General requirements:

Appropriate organization of remuneration systems:	The renew and adjustment process is far advanced and is to be completed in 2011.
Appropriate upper limit for the ratio of fixed to variable:	Ratio of 1:3 for the Financial Markets segment, all other segments ratio of 1:1.5.
Bonus agreements limited in scope and time:	LBBW only concluded one-year bonus agreements in 2010 during new recruitments.
Securing capital:	LBBW paid no variable remuneration in 2010.
Disclosure obligation:	See section 4

Special requirements for major banks:

Risk-taker definition	Implemented; in addition to the members of LBBW's Board of Managing Directors, a further 57 posts occupied by 54 employees in 2010 were determined as being risk-taker positions.
Variable remuneration:	Board of Managing Directors decided on cornerstones of new variable remuneration for risk-takers at LBBW on February 17, 2011.
Pay committee:	The committee was formed in 2009 on the basis of the minimum requirements for risk management (version 08/2009); the committee was convened nine times in 2010.
More detailed disclosure by major institutions:	See section 4

3. Assessment

Due to bonus payments not being granted and moderate fixed salary adjustments in the non-tariff area being made at the same time, the position of LBBW salaries in relation to the rest of the market has not improved. Some competitors paid bonuses and made significant fixed salary adjustments despite negative results. LBBW did not consider this appropriate for its own company in view of the current profit situation.

As far as is currently known, the non-tariff salaries of competitors have increased by over 5 % against 2009. As a general rule, senior staff in particular have received significant increases (first level below board level: >14 %, second level between 7 % and 10 %).

4. Disclosure obligations¹

Alongside its legal obligations to oversee the suitability of the remuneration systems, the pay committee also has a consulting function with regard to the Board of Managing Directors. The pay committee, which reports directly to the Board of Managing Directors, consists of the following people:

Head of Human Resources, head of Group Risk Control, head of Back Office Financial Markets, head of Capital Markets, Trading and Sales, head of Private Customers/Private Banking for the Stuttgart region, head of International Business Region West, head of Target Group Management for Corporate Customers/Public Sector, divisional head of Risk Management Real Estate USA.

The heads of Revision and Compliance are involved as part of their responsibilities.

Overall remuneration (all employees, including managers and risk-takers).

EUR 588.7 million in fixed salaries was paid to a total of 11 784 employees. Of this, EUR 120.3 million was to the Private Customers segment (2 713 employees); EUR 76.1 million to the Corporate Customers segment (1 225 employees); EUR 63.5 million to the Financial Markets segment (767 employees) and EUR 328.8 million to employees in other divisions (7 079 employees).

Except for guaranteed bonuses resulting from contractual agreements made in the past, LBBW made no bonus payments in 2010. The guaranteed bonuses to 78 employees amount to EUR 3.6 million. EUR 0.4 million of this went to the Private Customers segment (5 employees), EUR 0.9 million to the Corporate Customers segment (29 employees), EUR 1.9 million to Financial Markets (16 employees) and EUR 0.4 million to employees in other divisions (28 employees).

A total of EUR 22.3 million was paid to 329 employees for contractually agreed severance payments. The maximum amount was EUR 0.35 million.

Remuneration of managers and risk-takers.

Fixed salaries of EUR 4.4 million were paid to managers (8 employees) and EUR 12.9 million to risk-takers (54 employees). Retention payments totaling EUR 1.9 million were made to 23 risk-takers.

No bonus was paid to the 8 managers. Of the 54 risk-takers, three had a contractual claim to bonuses amounting to EUR 1.3 million as part of their employment contracts.

¹ All figures are for the 2010 financial year.