

Remuneration Report for Fiscal Year 2011 Landesbank Baden-Württemberg

1. Remuneration system

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

1.1. Fixed remuneration

The system of fixed remuneration is essentially based on the value of the position or function exercised in accordance with the applicable collective bargaining agreements or, for positions not covered by such agreements, market conditions. The qualification and skill requirements for employees are among the factors relevant for determining remuneration. The level of fixed remuneration ensures that employees are not significantly dependent on the variable remuneration component. There are no employment contracts at LBBW which give rise to the obligation to pay severance when employees leave the company.

1.2. Benefits

Benefits are salary-related payments and services offered by LBBW to its employees, largely voluntarily, i.e., not based on claims arising from collective bargaining agreements.

The most important remuneration-related benefits at LBBW are the following:

- a) company pension
- b) *Flexiwertkonto* (working time account) as per service agreement
- c) company car
- d) impromptu bonuses (incentives)

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

1.3. Performance-based, variable remuneration

Variable remuneration at LBBW follows the principles outlined below:

- Individual bonuses are awarded based on function, goals agreed, and goals attained as well as performance of responsibilities. There is no mathematical correlation of bonuses to quantitative and qualitative achievement of goals.
- As a rule, variable remuneration does not offer any incentives for taking inappropriately high risks. There is no correlation between the returns from risk taking and the variable remuneration that can be earned.
- The level of bonus budget available depends on the performance of the Bank and organizational units. In addition to qualitative factors, risk costs are factored in to make suitable allowance for the sustainability of this performance. The contribution to performance of the risk management and controlling units is measured solely on the basis of the performance of the Bank as a whole.

2. Remuneration 2011

2.1. Fixed remuneration 2011

The base salaries of employees not subject to collective bargaining agreements and executive staff saw a straight-line increase of 1.6%. Moreover, a budget of 3.5% of the fixed salary total was available to the divisions for individual salary components for employees not subject to collective bargaining agreements.

2.2. Variable remuneration 2011

No bonuses were paid in 2011 for fiscal 2010 due to LBBW's earnings situation.

Contractual fixed bonus commitments for 14 employees from previous years in the amount of approximately EUR 0.9m were paid out in 2011. In 2011, one-year variable remuneration guarantees were made in the employment contracts of only six new hires.

2.3. Regulatory requirements and status of implementation

The Remuneration Regulation for Institutions (Instituts-Vergütungsverordnung), which entered into force on 13 October 2010, stipulates extensive requirements applicable to remuneration systems at financial services institutions and imposes disclosure obligations on these institutions. The key regulatory requirements and the status of implementation at LBBW are outlined below:

General requirements:

Appropriate structuring of remuneration systems:	The auditing and modification process was nearly completed in 2011
Appropriate upper limit for ratio of fixed to variable remuneration:	Financial Markets segment ratio is 1 to 3; in all other segments ratio is 1 to 1.5
Safeguarding own funds:	In 2011, LBBW did not pay any performance-based remuneration
Disclosure obligation:	See section 4

Specific requirements for major institutions:

Documentation of risk takers:	No changes in 2011
Remuneration Committee:	The Remuneration Committee met seven times in 2011
Further disclosures by major institutions	See section 4

3. Valuation

A look at salaries in the German banking sector indicates that variable salary components have declined considerably on the whole in favor of fixed salary components. For instance, competition caused base salaries in some business areas to rise sharply by up to 10 percent. Due to new regulatory requirements and the associated uncertainties, the pressure to adjust fixed salary components to the detriment of variable remuneration in the affected areas remains strong.

Moreover, human resources bottlenecks have arisen in some cases in support functions for complex products and in compliance and controlling functions. Due to their increasing importance, compliance functions at LBBW were consolidated in a new Compliance division. As in 2010, LBBW did not pay any bonuses in 2011 due to the earnings situation. Most of our competitors paid bonuses and also adjusted fixed salaries.

The linear adjustment of fixed salaries for employees not covered by collective bargaining agreements by 1.6% in April 2011 was therefore insufficient to close the gap between LBBW's salaries and the market. Individual salary components amounting to 3.5% of fixed salaries contributed to the effort to retain key high-performance employees at the Bank in some specific cases. However, they were not enough to exert a sustained positive influence on LBBW's salary levels compared to the market.

4. Disclosure obligations¹

In addition to its statutory obligations to monitor the appropriateness of the remuneration system, it is the Remuneration Committee's responsibility to advise the Board of Managing Directors. In 2011, there was one change in the composition of the Remuneration Committee, which reports directly to the Board of Managing Directors. The Compliance Division head joined the Committee, replacing the Risk Management Real Estate USA department head. The Auditing Division head is included within the scope of his responsibilities.

Total remuneration (all employees, including managers and risk takers)

Fixed remuneration of EUR 613.8m was paid to LBBW's total of 11,361 employees. Of this amount, EUR 123.8m was attributable to the Retail Customers segment (2,704 employees), EUR 74.9m to the Corporate Customers segment (1,140 employees), EUR 69.1m to the Financial Markets segment (732 employees), EUR 24.9m to the Business Abroad segment (308 employees), and EUR 321.1m to the employees in other divisions (6,477 employees).

Apart from the guaranteed bonuses contractually agreed in the past, LBBW paid no bonuses in 2011. The guaranteed bonuses paid to 14 employees totaled EUR 0.9m. Of this amount, EUR 0.34m was attributable to the Corporate Customers segment (4 employees), EUR 5 thousand to the Financial Markets segment (1 employee), EUR 15 thousand to the Risk Management segment (1 employee), EUR 0.45m to the Retail Customers/Private Banking/Wealth Management segment (2 employees), and EUR 0.11m to the employees in other divisions (6 employees).

A total of EUR 28.5m was paid to 317 employees for contractually agreed severance packages. The maximum amount was EUR 0.34m.

Remuneration of managers and risk takers

Managers² (12 employees) were paid fixed salaries of EUR 5.9m, and risk takers (46 employees) were paid EUR 11.3m.

One manager and one risk taker had contractual claims to sign-on bonuses, together totaling EUR 0.7m.

¹ All figures relate to payments disbursed in fiscal 2011

² Comprises the members of the LBBW, BW-Bank, Rheinland-Pfalz Bank, and Sachsen Bank Boards of Managing Directors