Remuneration report for fiscal year 2012 Landesbank Baden-Württemberg.

June 2013.

Landesbank Baden-Württemberg

1. Remuneration principles and remuneration governance.

As a significant institution as defined in the Remuneration Regulation for Institutions (InstitutsVergV), Landesbank Baden-Württemberg (LBBW) is subject to particular requirements with respect to the structure, disclosure and governance of employee remuneration.

LBBW seeks to gear its employee remuneration to its strategy and risks. At the same time, implementation of the regulatory requirements forms the core element of the remuneration strategy, which provides the framework for employee benefits and remuneration within the scope defined by governance requirements.

The key purposes of the remuneration strategy are:

- to ensure LBBW's appeal as an employer in the labor market,
- to pursue risk-oriented performance management, i. e. accepting and managing reasonable risks,
- to ensure that statutory and regulatory requirements are implemented in the instruments and processes,
- to align employees' activities to specifically defined targets aimed at enhancing enterprise value,
- to reward sustained business success by means of variable remuneration,
- to integrate the performance management and remuneration process within the principles of good corporate governance and risk management.

The structure of LBBW's remuneration systems is oriented to the performance, success and results of the employees and the Bank as well as market conditions.
Steps are taken to ensure that the relevant statutory requirements as stipulated in InstitutsVergV are duly satisfied. The variable remuneration incentives are thus closely linked to the Bank's sustainable success.

The Remuneration Committee is responsible for monitoring the appropriateness of LBBW's remuneration system and observance of the requirements and stipulations defined in InstitutsVergV. It advises the Board of Managing Directors on fundamental matters pertaining to remuneration, drawing its attention to potentially undesirable developments in the remuneration systems and proposing corrections.

The definition of the remuneration strategy and the establishment of the Remuneration Committee and the activities it performs have given LBBW a stable governance structure which ensures appropriate structuring, implementation and monitoring of the remuneration systems.

2. LBBW's remuneration systems.

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

2.1. Remuneration system for employees covered/not covered by collective bargaining agreements and for executive staff.

2.1.1. 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.

Employees subject to collective bargaining agreements.

As a rule, employees subject to collective bargaining agreements receive 12 monthly salary installments as fixed remuneration plus a special payscale bonus. In addition, a voluntary company bonus (»14th monthly salary installment«) is currently being paid. The Board of Managing Directors passes a resolution each year approving the payment of the 14th monthly salary installment. There are various legacy arrangements from predecessor institutions in force at LBBW; currently around 57% of LBBW staff are entitled to payment of the 14th monthly salary installment.

The fixed salaries paid to the employees subject to collective bargaining agreements are increased to match the industry-wide collective bargaining agreements for the banking industry and the public sector.

Employees not subject to collective bargaining agreements and executive staff.

Employees not subject to collective bargaining agreements and executive staff receive 12 monthly salary installments. The fixed remuneration is based on a comparison of the remuneration paid for the function by external competitors on the one hand and on the basis of the employee’s personal performance on the other.

In contrast to the collective bargaining arrangements, position-based market indicators play a decisive role in the determination of remuneration for employees not subject to collective bargaining agreements and for executive staff. This means that standard market salaries are used as a benchmark for determining the fixed remuneration.

The benchmarks required for this purpose are prepared in consultation with specialist consulting companies. The benchmark thus calculated is used as a parameter for determining the remuneration and is backed up by an internal comparison.

The fixed salaries are reviewed once a year. In addition to the **regular adjustment** (indexed remuneration for employees not subject to collective bargaining), **individual increases** are also possible. These are approved once a year by the Board of Managing Directors – normally effective 1 July of each year – on the basis of the employee’s individual performance and market indicators.

In 2012, employees not subject to collective bargaining agreements and executive staff also received **temporary allowances.** These temporary monthly allowances are paid from 1 April 2011 to 31 March 2013.

2.1.2. 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.

Employees subject to collective bargaining agreements, employees not subject to collective bargaining agreements and executive staff.

In the event of above-average performance, employees subject to collective bargaining agreements, employees not subject to collective bargaining agreements as well as executive staff may receive variable remuneration if the Board of Managing Directors has passed a resolution providing for a corresponding budget for variable remuneration.

The responsible executive assesses the individual employee's performance and determines the possible variable remuneration. This is done on a **discretionary** basis, i.e. it is decided by the responsible executive in the light of the allocated budget.

2.1.3. 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:

- company pension,
- FlexiWertkonto (working time account) as per service agreement,
- company car,
- impromptu bonuses (incentives).

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

Company pension.

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

Defined-benefit plans established by predecessor institutions remain in operation. 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.

Roughly 9 150 employees come within the scope of LBBW's current benefit plan, the »capital account plan«, while around 4 100 employees are eligible for benefits under the previous arrangements established by the predecessor institutions. This figure comprises staff who are still actively employed as well as employees who have left the Bank but continue to hold non-forfeitable pension entitlement.

Around 4 400 employees are enrolled in the deferred remuneration plan.

As at the end of 2012, benefits under pension plans were paid to 4 378 people.

The company pension obligations in accordance with IFRS were valued at EUR 1.9 billion (employer-funded pension plans).

LBBW FlexiWertkonto.

The LBBW FlexiWertkonto is a working time account. With this account, employees may defer a certain part 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 2012, a sum of roughly EUR 30.7 million was invested in the individual portfolios.

2.2. Remuneration system for risk takers.

2.2.1. Underlying principles.

On the basis of the statutory provisions set forth in the Remuneration Regulation for Institutions (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 exert a material influence on the Bank's overall risk profile. The purpose of the model is to align remuneration structures more closely with long-term and sustainable business success with due regard for risks.

Established in 2012, the remuneration model for risk takers including the risk analysis to identify risk takers at LBBW was revised to incorporate adjustments in the light of the regulatory requirements and this revised version was approved by the Board of Managing Directors in the 2nd quarter of 2013. The revised remuneration model for risk takers will apply as of the 2013 financial year.

2.2.2. Identification of risk takers/risk analysis.

Against the backdrop of LBBW's size, business activities, complexity and the degree of risk involved in its business activities, certain LBBW employees – in addition to the managers – hold duties which exert a material influence on the Bank's overall risk profile. They are referred to as »risk takers«.

The identification of risk takers at LBBW is primarily based on a functional analysis approach. All decision-making systems, work instructions and incentive systems at LBBW are designed in such a way that risk-exposed business can be carried out only in the market segments that generate revenues.

Only in these revenue-generating segments is it at all possible for employees to influence their variable remuneration to a noteworthy extent by entering into and concluding transactions entailing an exposure to risk.

Risk takers have been identified at LBBW on the basis of the following criteria defined by InstitutsVergV:
- scope and type of business activity,
- volume of business,
- size of risk,
- income generated by the organizational unit,
- activity, hierarchical position,
- previous amount of remuneration and
- competitive situation in the labor market.

In addition to the members of LBBW's Group 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) are deemed to be risk takers. Moreover, the division and department heads in the Financial Markets, Corporate Customers and Retail Customers/Private Banking/Wealth Management segments as well as the branch managers in New York, London and Singapore have been identified as risk takers.

On the basis of the risk analysis, a total of 57 persons were identified as risk takers at LBBW in accordance with their function (including the Board of Managing Directors) in 2012.

2.2.3. Parameters for measuring success for risk-taker remuneration.

Variable remuneration for risk takers is based on the following sustained parameters, each of which account for one-third:

- the Group's overall success as measured by profit before tax for the year,
- the contributions made by the organizational units to the Bank's overall success as measured by reference to MC II including calculated risk costs,
- the specific contributions made by the individual employees.

The bonus is measured on the basis of the overall goal achievement.

The final bonus is measured in the following year after the annual financial statements for the fiscal year in question have been approved and the employee's goal achievement has been determined in accordance with a resolution passed by the Group's Board of Managing Directors.

Payment arrangements.

Significant parts of the variable remuneration are dependent on long-term trends in the Bank's enterprise value and are based on LBBW's medium-term forecast.

For this reason, 60% (in the case of division heads) and 40% (in the case of department heads) of the variable remuneration is deferred over a period of three years and paid out on a time-proportionate basis; in the event of any negative contributions to success, the deferred amount is forfeited or reduced. At the end of the deferral period, the Board of Managing Directors (for the division head) and the division head (for the department head) determine at their own discretion the extent to which the individual goals have been achieved on a sustained basis and, where applicable, determine any adjustments to the deferred amount.

50% of the deferred amount is frozen for a period of one year and tied to sustained changes in value.

20% (in the case of division heads) and 30% (in the case of department heads) 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 sustained changes in the Bank's enterprise value.

2.3. Remuneration system for employees at LBBW units outside Germany.

2.3.1. Fixed remuneration.

The collective bargaining remuneration arrangements for domestic employees cannot be applied to LBBW units outside Germany. Employees at LBBW's foreign branches and representative offices receive a fixed salary which as a rule is paid in 12 monthly installments. The amount of the fixed remuneration depends on the employee's function and is determined on the basis of the individual employee's performance.

2.3.2. Variable remuneration.

The domestic arrangements for variable remuneration at the Bank (see 2.1.2 Variable remuneration) also apply to employees abroad. The Board of Managing Directors determines what proportion of the bonus budget will be allocated to the foreign units. As is the case with domestic arrangements, bonuses are allocated to employees on the basis of an individual assessment of their performance by the responsible manager.

The assessment and also the measurement of the bonus are performed on a discretionary basis. There is no formula-based link between goal achievement or any other performance parameters and variable remuneration. The variable remuneration granted by LBBW is not a fixed part of the annual salary but constitutes a voluntary benefit on the part of the Bank.

The risk-taker remuneration model also applies to risk takers at LBBW units outside Germany.

2.3.3. Benefits.

With the exception of the impromptu bonuses, the rules set out in 2.1.3 pertaining to benefits do not apply to the employees at LBBW's foreign units. LBBW observes local statutory and company arrangements with respect to the granting of benefits at the individual units abroad.

2.3.4. Remuneration of seconded staff.

Employees who are seconded by LBBW to branches and representative offices receive an addendum to their German employment contract for the period of the secondment setting out any additional remuneration which they may be entitled to receive.

2.4. Remuneration system for the Board of Managing Directors.[1]

Responsibility.

The Supervisory Board makes decisions on the remuneration system including the main contractual elements for the members of the Board of Managing Directors and fixes the remuneration payable to them. The Executive Committee assumes an important advisory role in this respect and prepares the resolutions of the Supervisory Board.

Principles of the remuneration system.

The Supervisory Board has approved a new remuneration system for members of the Board of Managing Directors that came into effect on 1 January 2012. This system will be regularly reviewed and further developed as needed. The focus of the new system is on gearing remuneration to the attainment of sustained business success without offering incentives to take disproportionately high risks. For this reason, the Supervisory Board has, among other things, set a ratio of 1:1.5 as a reasonable upper limit for the ratio of fixed to variable remuneration.

The remuneration parameters that determine variable remuneration are geared toward achieving the targets derived from the Bank's strategy on a sustained basis. The parameters for the payment of bonuses are the Group's overall success and the individual Board members' contribution to profit, which are largely measured and assessed with the help of qualitative factors. Contributions to profit can be positive or negative and accordingly have an impact on variable remuneration. 60% of the variable annual remuneration is deferred for a period of three years and paid out on a time-proportionate basis. This may be reduced within this period or even lapse. 50% of this deferred remuneration is based on sustained performance.

The retirement benefits for new members of the Board of Managing Directors have been organized in the form of defined-contribution benefits as part of the restructured remuneration.

The previous arrangement will be continued for pre-existing contracts in the form of a final-salary scheme. The amount is measured in accordance with the length of service on the Board of Managing Directors.

The Supervisory Board regularly reviews the appropriateness of the Board remuneration model as well as the amount and composition of the Board remuneration.

1) In this section the term »Board of Managing Directors« refers to the Board of Management Directors plus the General Manager of LBBW.

Remuneration 2012.

In 2012, remuneration of the members of LBBW's Board of Managing Directors consisted of fixed, non-performance-based remuneration, variable performance-based remuneration and other benefits (essentially the use of a company car with driver). Moreover, the members of the Board of Managing Directors are eligible for inclusion in a company pension scheme.

The members of the Board of Managing Directors received fixed remuneration totaling EUR 3.86 million for their service on the Board in the fiscal year 2012.

In addition, variable performance-based remuneration totaling EUR 1.81 million was granted in the fiscal year 2012. Of this, an amount of EUR 0.36 million was paid out in the fiscal year 2013, while the balance of EUR 1.45 million was deferred in accordance with the applicable terms of the remuneration system, with payment of this amount subject to confirmation.

Moreover, a sum of EUR 0.29 million was paid to members of the Board of Managing Directors in 2013 from amounts deferred from previous years following a review of the conditions for payment.

Other benefits were valued at a total of EUR 0.04 million.

As at 31 December 2012, pension obligations according to IFRS for serving Board members as at the balance sheet date totaled EUR 12.05 million.

3. Remuneration 2012.

3.1. Fixed remuneration 2012.

The base salaries of employees not subject to collective bargaining agreements and executive staff saw a straight-line increase of 2.4% as at 1 July. Moreover, a budget of 1.6% of the fixed salary total was available to the divisions for individual salary components for employees not subject to collective bargaining agreements. Individual salary components are provided in the following cases, in particular:

- promotion to a higher position,
- measures to bring the function into line with the applicable market indicators,
- sustained good to very good performance by the holder of the position.

3.2. Variable remuneration 2012.

Bonus payments totaling EUR 23.8 million for fiscal 2012 were allocated to employees in 2013; these were either paid out directly, deferred or frozen.

For comparison purposes, performance-based remuneration totaling EUR 21.4 million was paid in 2012.

3.3. Regulatory requirements and current status of implementation.

The Remuneration Regulation for Institutions (Instituts-Vergütungsverordnung), which came into force on 13 October 2010, provides extensive requirements for remuneration systems at financial services institutions and imposes on them certain reporting duties.

The following section provides details of the progress made by LBBW in implementing the regulatory requirements:

General requirements:

Appropriate structuring of remuneration systems:
Under Section 3 Paragraphs 3, 4 and 5 of InstitutsVergV (Remuneration Regulation for Institutions), the remuneration systems must be structured in such a way that the incentive to accept unreasonably high risks is avoided. For this reason, LBBW has defined upper limits 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. As a result, the remuneration systems do not generate any incentive to accept unreasonably high risks.

Moreover, LBBW takes part annually in external remuneration studies and determines the appropriateness of employee remuneration in the light of market conditions as part of annual remuneration reviews.

Appropriate upper limit for the ratio of fixed to variable remuneration:
The ratio of fixed to variable remuneration is 1 to 3 in the Financial Markets; in all other segments, the ratio is 1 to 1.5.

In 2012, the limits stated were not exceeded.

Appropriate equity resources:
LBBW's appropriate equity resources and liquidity were not adversely affected by any performance-based variable remuneration.

Internal disclosure of the remuneration systems:
The provisions of InstitutsVergV stipulate that employees must be notified in writing of the structure of the remuneration systems applicable to them. LBBW wrote to all active employees in 2012, describing the remuneration systems applicable to them.

Risk orientation of the remuneration:
Under Section 3, Paragraph 8 of InstitutsVergV, the risk orientation of remuneration may not be limited or eliminated by means of hedging or other countermeasures. Under these provisions, the managers and employees of LBBW undertake to refrain from engaging in any personal hedging or other countermeasures with the purpose of limiting or eliminating the risk orientation of their remuneration. All employees of LBBW were notified in writing of this obligation in 2012; in addition, corresponding provision to this effect was included in new employee contracts.

Disclosure obligation: See section 4

Specific requirements for major institutions:

Documentation of risk takers:
Risk takers are identified on the basis of the risk analysis (see section 2.2.2. for the criteria). In 2012, there was no change in the functions identified.

Remuneration system for risk takers:
In accordance with the requirements and stipulations of InstitutsVergV, a special remuneration model (see section 2.2.) has been developed and implemented for risk takers at LBBW. The new remuneration model was applied for the first time in 2012.

Remuneration Committee:
LBBW's Remuneration Committee monitors the appropriateness of the remuneration system and advises the Board on basic remuneration matters. The members of the Remuneration Committee are determined by the Board of Managing Directors.

The members of the Remuneration Committee comprise the heads of Human Resources, Group Risk Controlling, Compliance (simultaneously as the representative of the back office), International Business, Financial Markets Back Office, Retail Customers/Private Banking for the Stuttgart region, Target Group Management Corporate Customers/Public Sector, Capital Markets, Trading and Sales. Internal Auditing is included within the scope of its responsibilities.

The Remuneration Committee met five times in 2012.

Further disclosures by major institutions:
See section 4

Revision of risk analysis, remuneration model for Board of Managing Directors and risk takers:

The risk analysis and LBBW's remuneration models for the Board of Managing Directors and risk takers were submitted to the German Federal Financial Supervisory Authority (BaFin) in 2012. In this connection, BaFin identified various aspects requiring adjustments or revisions.

Thereupon, LBBW commenced work on revising the risk analysis including the risk taker definition and the remuneration models for the Board of Managing Directors and risk takers in 2012. At the same time, it developed a Group remuneration strategy to ensure implementation of the regulatory requirements specified by InstitutsVergG in LBBW's subordinate and risk-relevant subsidiaries.

The duly modified remuneration models will be implemented from 2013 onward.

4. Disclosure of remuneration data in accordance with Sections 7 and 8 InstitutsVergV.

The following table sets out the remuneration paid to employees by LBBW for fiscal 2012 broken down by the type of remuneration and allocation to the Corporates, Financial Markets, Retail Customers, Credit Investment and Corporate Items segments (see section 2.4. for details of the remuneration for the Board of Managing Directors).

Table 1: Structure and breakdown of remuneration for fiscal 2012.

Key figure (all figures excluding company management)	Total	Corporates	Financial Markets	Retail/ Savings Banks	Credit Investment	Corporate Items
Total remuneration	636 002	152 095	128 125	153 370	4 739	197 674
Fixed remuneration in kEUR	597 081	140 378	116 687	148 879	4 597	186 540
Number of beneficiaries[1]	10 765	2 811	1 753	3 734	70	5 020
Number of risk takers in the year under review	50	25	19	2		4
Variable remuneration paid out to non-risk takers	21 191	7 637	7 391	2 194	142	3 828
Number of non-risk takers with variable remuneration	2 926	1 028	597	539	22	740
Variable remuneration attributed to risk takers for fiscal 2012	2 603	840	1 477	80	0	205
of which paid out (in 2013)	1 642	840	636	80		85
of which frozen	355		325			30
of which deferred and dependent on sustained performance	606		516			90
of which frozen	303		258			45
Variable remuneration paid out (in 2013) from deferrals in previous years (assessment basis: 2012 net consolidated profit)	117	6	96			15
Maximum amount of variable remuneration	165	71	165	50	20	150
Severance payments in kEUR	15 126	3 239	2 570	2 217		7 100
Number of severance payment beneficiaries	163	31	32	24		76
Maximum amount of severance payment[1]	455					
Bonus commitments in kEUR[1]	525					
Number of bonus commitment beneficiaries[1]	12					
Maximum amount of bonus commitment[1]	165					
For comparison purposes: variable remuneration paid out in fiscal 2012	21 397	7 196	6 831	2 619	163	4 588

1) A detailed presentation of the remuneration information was dispensed with in order to preserve the principle of materiality, protection by law and confidentiality as set out in section 26a (2) of the German Banking Act (Kreditwesengesetz).

4.1. Methodology.

Employees and the remuneration which they receive are not allocated to business segments in accordance with LBBW's corporate structure but on the basis of the value chain; i. e. employees are reported within the corresponding market segment if they can be clearly allocated to it on the basis of their organizational unit and their duties. Where this is not possible (either because the organizational unit in question or the employee's duties cover several market segments), they are assigned to the Corporate Items segment.

Employees who were assigned to multiple segments in 2012 as a result of internal fluctuation, are allocated to the corresponding segments on a time-proportionate basis. For this reason, the sum total of beneficiaries in the segments exceeds the total number of staff at LBBW by around 2 600.

The remuneration data refers to fiscal 2012. This means that, for example, the figures shown include the performance-based variable remuneration components granted for fiscal 2012, which for the most part were paid out in the 2nd quarter of 2013. In the case of the risk takers, the amount of the performance-based remuneration is shown in addition to the amounts which have been directly paid out, frozen or deferred.

4.2. Bank as a whole.

The total remuneration paid to 10 765 employees came to **EUR 636 million** in fiscal 2012, equivalent to EUR 59 000 per employee. Broken down by individual remuneration component, this produces the following picture:

Remuneration type	Total 2012	Share of total	Average per employee
Fixed remuneration:	EUR 597.0 million	94 %	EUR 55 800
Variable remuneration:	EUR 23.8 million	4 %	EUR 2 100
Severance payments:	EUR 15.1 million	2 %	EUR 1 400

Fixed remuneration accounts by far for the greatest proportion of total remuneration.
Around 66 % of the variable remuneration was paid to employees not subject to collective bargaining agreements, 17 % to executive staff, 11 % to risk takers and 6 % to employees subject to collective bargaining agreements.

In connection with the ongoing restructuring process, severance payments of a total of EUR 15.1 million were made to 163 employees, equivalent to an average of EUR 92 800. The maximum severance payment was EUR 455 000.

Bonus commitments of a total of EUR 429 000 (average EUR 42 900) were made to 10 employees under new employment contracts. The maximum amount stood at EUR 300 000. In addition, there are two bonus commitments of a total of EUR 96 000 outstanding from prior years.

4.3. Variable remuneration of risk takers.

Variable remuneration entitlement of a total of EUR 2 603 000 accrued to risk takers in fiscal 2012. Of this, an amount of EUR 1 642 000 was paid out directly and an amount of EUR 961 000 deferred subject to sustainable performance (EUR 606 000) or frozen (EUR 303 000). Following a sustainability review of the remuneration components which had been deferred in prior years (evaluation basis: net consolidated profit for 2012), a sum of EUR 117 000 was released for payment to the risk takers in June 2013.

5. Valuation.

In 2012, the fixed remuneration paid to employees not subject to collective bargaining agreements was increased by around 2.6% in the German banking market. Salaries subject to collective bargaining agreements are for the most part tied to the agreements reached in collective bargaining for German private-sector and public-sector banks. The fixed salaries of the employees subject to the collective bargaining agreements for the banking sector were raised by 2.9% effective 1 July 2012. In addition, a one-off amount of EUR 350 per employee was paid.

The Board of Managing Directors has adopted a performance-based bonus budget for fiscal 2012 based on the Bank's earnings performance. However, the bonus budget has been reduced substantially by around 70% over the last regular bonus year (2008, paid for fiscal 2007).

The base salaries of employees not subject to collective bargaining agreements and executive staff at LBBW saw a straight-line increase of 2.4% as at 1 July due to the regular adjustment for 2012. As a result of the additional volume for individual salary adjustments of 1.6% of the base salaries of the employees not subject to collective bargaining agreements, it was possible to retain key high-performance employees at the Bank in some specific cases and on average to exert a positive influence on LBBW's salary levels compared to the market.

All told, the fixed salaries paid to the employees not subject to collective bargaining agreements at LBBW are within the market corridor; by contrast, total remuneration (fixed plus variable) tends to be lower than the market average due to the reduced bonus budget.

In view of the implementation of regulatory requirements such as an upper limit on the ratio of fixed to variable remuneration components, the introduction and application of a risk-taker remuneration model and external remuneration benchmarking, LBBW salaries are appropriate and satisfy the stipulations set forth in InstitutsVergV.

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