



# Corporate Governance Principles

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## Preamble

Trust in the corporate policy of Bayerische Landesbank (BayernLB) is largely dependent on the degree to which there are responsible, transparent management and controls aimed at increasing the value of the Bank over the long term. BayernLB has therefore always placed great emphasis on corporate governance.

As a bank operating within Germany and internationally, and as an unlisted public-sector institution, BayernLB has an interest in making the corporate governance system it has voluntarily adopted transparent and comprehensible so as to promote even greater trust in BayernLB among customers, staff and the public at large.

These Corporate Governance Principles summarise the corporate management and control regulations which apply to BayernLB. They are either legal requirements in themselves or requirements BayernLB has chosen to impose on itself. The Corporate Governance Principles are largely based on the provisions of the German Corporate Governance Code, so far as these can be sensibly applied to BayernLB as an unlisted public-sector institution with only two indirect owners (shareholders). BayernLB's Corporate Governance Principles go beyond the requirements of the German Corporate Governance Code in a number of areas.

BayernLB's Corporate Governance Principles are regularly reviewed and amended as necessary to reflect new events or legal requirements, as well as changes to existing German or international standards. BayernLB reports on its observance of these Corporate Governance Principles in its annual report.

The BayernLB Board of Management, Supervisory Board and General Meeting adhere to these principles in fulfilling their mandates.

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## I. BayernLB's management and structure

<sup>1</sup>BayernLB, an institution established under public law domiciled in Munich, has a management and supervisory structure laid down in the Law on Bayerische Landesbank (BayLaBG) with responsibilities split between two bodies. <sup>2</sup>The Board of Management runs BayernLB's business, while the Supervisory Board appoints, supervises and advises the Board of Management.

<sup>3</sup>The General Meeting, attended by the shareholders, is a further institution of BayernLB, which has decision-making powers over policy matters.

## II. Board of Management, Supervisory Board and other supervisory bodies

### 1. The Board of Management

- a. <sup>1</sup>The Board of Management manages BayernLB under its own responsibility. It derives its tasks and responsibilities from German law and the BayernLB Statutes as based on the German Stock Corporation Act. <sup>2</sup>The members of the Board of Management are bound by their legal and statutory duties, the rules of proper corporate management and the interests of the Bank. <sup>3</sup>Should they intentionally breach their duty of care as proper and conscientious executive managers, they shall be liable to BayernLB for claims for damages. <sup>4</sup>The Board of Management makes its decisions on a sound and informed basis. <sup>5</sup>It scrutinises proposals, explanations and information when considering and taking decisions.
- b. <sup>1</sup>The Board of Management consists of several members and has a chairperson (CEO). The Supervisory Board appoints the members of the Board of Management, including the CEO. <sup>2</sup>The Board of Management lays down rules of procedure for itself, which require the approval of the Supervisory Board. <sup>3</sup>These govern cooperation and the task allocation between members.
- c. The Board of Management works with the Supervisory Board to determine and implement the strategic course of the Bank.
- d. <sup>1</sup>Among the tasks of the Board of Management are appropriate risk management and risk controlling. <sup>2</sup>It is also responsible for ensuring that legal requirements and internal guidelines be observed by all Group companies, and undertakes measures for this purpose ("Compliance", see VI.4., below). <sup>3</sup>It installs measures which are appropriate for the Bank's risk situation (compliance management system) and discloses their general features. <sup>4</sup>Employees are afforded suitable, protective means of reporting any sign of a legal violation in the Bank, as are third parties.  
  
<sup>5</sup>When filling management positions in BayernLB the Board of Management strives for diversity, in particular for an appropriate representation of women. <sup>6</sup>The Board of Management sets target percentages for females in the two management levels below Board of Management level.
- e. <sup>1</sup>The remuneration scheme for the Board of Management falls under the responsibility of the Supervisory Board. <sup>2</sup>Remuneration must be geared towards the achievement of the goals set out in the strategies of BayernLB; the appropriateness of the remuneration scheme must be reviewed on a regular basis and, when necessary, revised.

<sup>3</sup>In determining the remuneration for the individual members of the Board of Management, the Supervisory Board must ensure that such remuneration be appropriate in relation to the duties and performance of the Board of Management and to the situation of BayernLB, and that – with the benchmark rates and the remuneration scheme applied elsewhere at BayernLB taken into account – it not exceed the market rate. <sup>4</sup>The remuneration scheme must be so designed as to avoid incentives for the Board of Management to take disproportionately high risks.

<sup>5</sup>The remuneration structure is to be centred on a sustained corporate development.

<sup>6</sup>Variable remuneration is thus to be measured on a multi-year basis. <sup>7</sup>Positive and negative developments alike are factored into the variable remuneration components. <sup>8</sup>An appropriate upper limit is set for the ratio between variable and fixed remuneration. <sup>9</sup>The Supervisory Board shall agree on an emergency cap for unexpected developments. <sup>10</sup>Variable remuneration shall be based not only on the overall performance of the BayernLB Group but also on that of the particular member of the Board of Management and the units for which they are responsible.

<sup>11</sup>Any external remuneration expert enlisted by the Supervisory Board to assess the appropriateness of the remuneration shall constitute an objective party operating independently of the interests of the Board of Management and BayernLB. <sup>12</sup>Variable remuneration components stretching over two or more years are not disbursed in advance.

<sup>13</sup>The salaries of the members of the Board of Management are itemised in the annual report (notes to the accounts) by function and divided into fixed and variable remuneration. <sup>14</sup>In addition, BayernLB publishes a remuneration report on its website which also contains information on the remuneration of the Board of Management.

## 2. The Supervisory Board

a. <sup>1</sup>It is the task of the Supervisory Board to advise and monitor the Board of Management on a regular basis. <sup>2</sup>In particular it must constructively scrutinise proposals and information provided to the Board of Management. <sup>3</sup>The Supervisory Board must be included in decisions of fundamental importance to BayernLB and the BayernLB Group.

b. <sup>1</sup>The Supervisory Board decides on the appointment, recall, employment, dismissal and retirement of the members of the Board of Management. In assembling the Board of Management, it furthermore strives for diversity. <sup>2</sup>It works with the Board of Management on long-term succession planning.

c. <sup>1</sup>The Supervisory Board is made up of eleven members. <sup>2</sup>It comprises

1. ten shareholder representatives,
  - a) at least half of whom representing external members (external representatives),
  - b) at least three of whom representing the Free State of Bavaria (state representatives) and
2. one of whom representing the staff council of BayernLB.

<sup>3</sup>The shareholder representatives shall be appointed by the General Meeting. <sup>4</sup>The state representatives and four external representatives shall be recommended by the Bavarian State Ministry of Finance for appointment. <sup>5</sup>The Association of Bavarian Savings Banks shall recommend three Members, with at least one being an external Member, for appointment.

<sup>6</sup>The representative from the staff council of BayernLB will be appointed by the staff council of BayernLB.

<sup>7</sup>An “external” representative is defined as a person who has neither a business nor a personal relationship with BayernLB or its Board of Management that could give rise to a material conflict of interest, and who has no direct affiliation with the owners, i.e. with the Free State of Bavaria or with the Association of Bavarian Savings Banks. <sup>8</sup>The members of the Supervisory Board must be reliable and possess the knowledge required for fulfilling their supervisory function and for monitoring and assessing the business conducted by BayernLB; they are furthermore required to dedicate sufficient time to carry out their duties. <sup>9</sup>BayernLB invests a suitable amount of financial and human resources to facilitate the induction of the members of the Supervisory Board into their office and also to enable them to keep abreast of new professional developments through courses and similar educational measures.

<sup>10</sup>No person shall be appointed who

- is serving as a member of the BayernLB Board of Management
- has served as a member of the BayernLB Board of Management when two or more members of the current Supervisory Board have also served as members of the Board of Management
- is a manager at a company and concurrently serving as a member of the administrative or supervisory body of three or more companies, or
- is serving as a member of the administrative or supervisory body of more than four companies.

<sup>11</sup>Multiple mandates are deemed to be one mandate if they are carried out at companies

- belonging to the same group of institutions, financial holding group, mixed financial holding group or mixed holding group
- belonging to the same inter-bank guarantee system or
- in which BayernLB holds a significant share (at least 10% of the voting rights or capital).

<sup>12</sup>Details on this can be found in the German Banking Act.

- d. As the Supervisory Board comprises only eleven members, its working processes can run efficiently and it can convene frequently (holding usually five ordinary meetings per year).
- e. <sup>1</sup>The Supervisory Board has set up an Audit Committee which deals primarily with issues relating to accounting, risk management, compliance and the financial accounts. <sup>2</sup>In particular, it assists the Supervisory Board in the monitoring of
- the accounting and the accounting process
  - the efficacy of the risk management system, especially the internal controlling system and the Audit Division
  - the audits of the annual and consolidated accounts; the Audit Committee submits to the Supervisory Board its recommendation for an appointed auditor, citing its reasons, which is to include at least two candidates whenever the audit services are to be tendered. The Audit Committee monitors the auditor’s independence and is furthermore involved in: the examining of the additional services rendered by the auditor, the commissioning of the audit services to the auditor, the determination of the focal areas of the audit, and the agreement on the fees

- the swift elimination by the Board of Management, by means of suitable measures, of problems ascertained by the auditor.

<sup>3</sup>The chairperson of the Audit Committee must possess accounting and auditing expertise.

<sup>4</sup>The chairperson of the Audit Committee should not hold the position of chairperson of the Supervisory Board at the same time. <sup>5</sup>At least half of the shareholder representatives on the Audit Committee shall be external representatives.

- f. <sup>1</sup>The Supervisory Board has formed a Risk Committee that concerns itself with all essential matters relating to the risk strategy and risk situation of BayernLB, both at Group level and BayernLB level. <sup>2</sup>At least half of the shareholder representatives on the Risk Committee shall be external representatives.
- g. The Supervisory Board has formed an Executive and Nominating Committee. Among other things, the Executive and Nominating Committee deliberates on strategic, business and corporate policy issues and, in particular, assists the Supervisory Board in identifying applicants for a position on the Board of Management and in regular assessments of the Board of Management.
- h. The Supervisory Board has formed a Compensation Committee. Among its key tasks are monitoring the appropriateness of the structure of the remuneration systems for the Board of Management and employees, and drafting the Supervisory Board's resolutions governing the remuneration of the Board of Management.
- i. <sup>1</sup>The Supervisory Board has formed a committee for treating matters pertaining to Bayerische Landesbodenkreditanstalt (BayernLabo Committee). <sup>2</sup>Bayerische Landesbodenkreditanstalt (BayernLabo) is a legally dependent but organisationally and financially independent institution established under public law within BayernLB. <sup>3</sup>BayernLabo has a public mandate to provide financial support for construction projects and other measures to improve and upgrade the housing stock and settlement structure of Bavaria.
- j. <sup>1</sup>The Supervisory Board may set up other committees with advisory or decision-making powers as necessary.
- <sup>2</sup>The committee chairpersons shall report regularly on the work of their respective committees to the Supervisory Board.
- k. <sup>1</sup>The chairperson of the Supervisory Board is elected by its members on the Supervisory Board, based on the proposal of the General Meeting. <sup>2</sup>This person coordinates the work of the Supervisory Board, chairs its meetings and represents the interests of the Supervisory Board to other parties. <sup>3</sup>The chairman contributes to an effective flow of information within the Supervisory Board so as to provide a sound basis on which the members of the Supervisory Board can cast their votes. <sup>4</sup>The chairman of the Supervisory Board fosters open and critical deliberation and ensures that dissenting views can also be expressed and debated during the decision-making process.

<sup>5</sup>Between meetings, the chairperson of the Supervisory Board maintains regular contact with the Board of Management, particularly with the CEO, and advises it on issues of strategy, planning, business performance, the risk situation, risk management and compliance at BayernLB and the BayernLB Group.

<sup>6</sup>The chairperson and deputy chairperson of the Supervisory Board have the right to examine the business operations and all legal relationships of BayernLB.

- l. <sup>1</sup>The remuneration for the members of the Supervisory Board is determined by the General Meeting. <sup>2</sup>The members of the Supervisory Board shall receive remuneration at the going market rate. <sup>3</sup>Chairmanship and deputy chairmanship in the Supervisory Board, and chairmanship as well as general membership in the committees, shall be taken into account. <sup>4</sup>The total remuneration for the Supervisory Board members, which is defined by the General Meeting, is stated in the annual report (in the notes to the accounts).

### 3. Collaboration between the Board of Management and Supervisory Board

- a. The Board of Management and Supervisory Board of BayernLB work closely together for the good of BayernLB.
- b. <sup>1</sup>In matters of fundamental importance, the German Banking Act, the Bank's Statutes and/or the Supervisory Board itself – in certain cases – confer a right of veto on the Supervisory Board. <sup>2</sup>Such matters include decisions and measures that would fundamentally alter BayernLB's financial or earnings position, and key lending decisions.
- c. <sup>1</sup>The Board of Management is responsible for providing information to the Supervisory Board. The Supervisory Board, for its part, plays an active role in ensuring it is properly informed. <sup>2</sup>To this end, the Supervisory Board lays down the concrete information and reporting duties of the Board of Management. <sup>3</sup>The Board of Management reports to the Supervisory Board regularly and, in the case of an extraordinary event, immediately, in detail on all matters of material importance for BayernLB or the BayernLB Group relating to business performance, projections, earnings and profitability, the overall risk situation, risk management and compliance. <sup>4</sup>These reports are generally presented in writing. <sup>5</sup>The Board of Management thereby details any deviations in business performance from the projections and targets set, and states the reasons for such deviations. <sup>6</sup>The CEO immediately informs the chairperson and the deputy chairperson of the Supervisory Board of extraordinary incidents bearing key importance to the assessment of BayernLB's situation and performance. <sup>7</sup>The chairperson of the Supervisory Board then passes this information on to the entire Supervisory Board not later than during the following meeting of the Supervisory Board. <sup>8</sup>In addition, the chairperson and deputy chairperson of the Supervisory Board have the rights of examination listed in II.2.k, above.
- d. <sup>1</sup>Good management requires open discussion between and within the Board of Management and the Supervisory Board. <sup>2</sup>It is therefore vital that confidentiality be adequately ensured at all times.

<sup>3</sup>All members of the Board of Management and the Supervisory Board undertake to ensure that the members of staff they work with respect the duty of confidentiality in the same way.

- e. The Supervisory Board convenes without the Board of Management when necessary.

### 4. Other supervisory bodies

- a. <sup>1</sup>As a public sector institution, BayernLB is subject to government supervision by the Bavarian State Ministry of Finance (supervisory authority). <sup>2</sup>The supervisory authority has a

wide-ranging right to acquire and receive information: It is authorised to convene regularly with the General Meeting and the Supervisory Board and its committees through a representative acting in an advisory capacity.<sup>3</sup> It can also lay down all necessary regulations to ensure that BayernLB's business operations satisfy the law, the Statutes and other relevant provisions.

<sup>4</sup>In addition to this government supervision, BayernLB, as a credit institution, is subject to general supervision by the European Central Bank and the German Federal Financial Supervisory Authority (BaFin).

- b. <sup>1</sup>By law, BayernLB is also subject to auditing by Bavaria's supreme audit institution. <sup>2</sup>The subject of such auditing includes, but is not limited to, BayernLB's compliance with the policies and regulations which apply to its management, i.e. whether and the degree to which it is operating economically.

### III. The General Meeting

1. <sup>1</sup>The General Meeting has decision-making authority on fundamental matters.<sup>2</sup>In particular, this competence extends to decisions on changes to the Statutes, the allocation of retained earnings, the appointment of statutory auditors and approval of the actions of the Board of Management and Supervisory Board.
2. The General Meeting may consist of up to six members and comprises – in accordance with the current (indirect) ownership structure – representatives of the Free State of Bavaria and the Association of Bavarian Savings Banks, each of whom is vested with General Meeting voting rights commensurate with their indirect ownership of BayernLB.

### IV. Regulations governing conflicts of interest and proprietary trading

1. For the duration of their employment by BayernLB, the members of the Board of Management are subject to a comprehensive ban on competition.
2. <sup>1</sup>No board or staff member may demand or accept unwarranted favours from third parties on their own behalf or that of others, or offer third parties unwarranted favours during their time of service at BayernLB.

<sup>2</sup>The legal prohibition on self-dealing applies equally to members of the boards and all members of staff. <sup>3</sup>Board members are also punishable as holders of office.

3. <sup>1</sup>The members of the Board of Management and the Supervisory Board are bound by the interests of the Bank. <sup>2</sup>No member of the Board of Management, Supervisory Board or the General Meeting may pursue any personal interests that contradict those of the Bank or exploit commercial opportunities that are open to BayernLB during the course of their activities.
4. <sup>1</sup>All members of the Board of Management disclose conflicts of interest to the Supervisory Board without delay and inform the other members of the Board of Management. <sup>2</sup>All members of the Supervisory Board disclose conflicts of interest to the Supervisory Board without delay, in particular those which may arise from advisory or executive activities in-

volving a third party.<sup>3</sup> Any material and non-temporary conflicts of interest borne by a member of the Supervisory Board shall result in the termination of that member's mandate.

5. No member of the Board of Management, Supervisory Board or the General Meeting shall be involved in the advising or decision-making process with regard to a transaction that bears the potential of an immediate benefit or disadvantage to themselves, a related or affiliated party or someone on whose behalf they are acting.
6. Members of the Board of Management require the approval of the Supervisory Board to pursue a secondary occupation.
7. <sup>1</sup>A loan may be granted to a member of the Board of Management or Supervisory Board or to such member's spouse, domestic partner or minor child only upon the unanimous approval of the Board of Management by way of resolution, and only under terms and conditions which conform with the market and only with the express approval of the Supervisory Board. <sup>2</sup>For transactions with members of the Board of Management, the Supervisory Board represents BayernLB. <sup>3</sup>Advisory and other service agreements and contracts for work between a member of the Supervisory Board and BayernLB require the Supervisory Board's approval.
8. <sup>1</sup>Legal and supervisory regulations require that BayernLB, in rendering securities services and ancillary investment services, carry out special, extensive organisational, reporting and control duties designed to protect the customers and, above all, prevent conflicts of interest. <sup>2</sup>The Board of Management ensures that these obligations are met by means of compliance regulations. <sup>3</sup>The compliance officer is directly subordinate to the Supervisory Board and reports to it and to the Board of Administration at least once per year to inform these bodies as to whether the measures and procedures set in place in fulfilment of the legal and supervisory regulations are suitable and effective.

## V. Transparency and accounting

### 1. Transparency

- a. The Board of Management shall immediately publicise all inside information that directly affects BayernLB so long as special circumstances do not exempt it from such duty of announcement.
- b. The publication dates for the annual reports and the intra-year financial information, as well as the schedule for the annual results and analysts' conferences, are posted on the BayernLB website sufficiently in advance as part of the institution's regular public relations activities.
- c. Information on BayernLB is also available on BayernLB's website ([www.BayernLB.de](http://www.BayernLB.de)). The publications can also be accessed in English.

### 2. Accounting

- a. <sup>1</sup>Under the legal requirements on banks, BayernLB is subject to extensive duties of information and disclosure regarding its financial situation, results, shareholders and supervisory bodies. <sup>2</sup>In particular, the annual accounts and consolidated accounts and report on the Bank and Group must be made available to shareholders and third parties. <sup>3</sup>In addition to its Group interim report, BayernLB furthermore provides information

during the financial year, in a suitable format, on its business performance and in particular on material changes to its business outlook and risk situation.

- b. <sup>1</sup>The annual accounts, consolidated accounts and report on the Bank and Group are drawn up by the Board of Management and verified by the statutory auditors and the Supervisory Board. <sup>2</sup>Intra-year financial information is reported by the Board of Management and the Supervisory Board or its Audit Committee prior to publication. <sup>3</sup>The Supervisory Board adopts the annual accounts and approves the consolidated accounts. <sup>4</sup>The annual accounts and the consolidated accounts shall be published within four months following the end of the financial year; the Group interim report shall be published within two months following the end of the reporting period.
- c. The consolidated accounts describe the relationships with those shareholders which under the applicable accounting provisions qualify as related or affiliated parties.

## **VI. Audit of annual accounts and risk management**

1. <sup>1</sup>Before officially proposing a particular statutory auditor, the Supervisory Board obtains a declaration from the statutory auditor of choice stating whether and, if so, what, business, financial, personal or other connections exist between the statutory auditor and its boards or head auditors, and between the statutory auditor and BayernLB or members of BayernLB's boards, which might call the statutory auditor's objectivity into question. <sup>2</sup>The declaration must cover the extent to which other services, in particular consultancy services, have been conducted on behalf of BayernLB in the previous financial year or contractually agreed for the coming year.
  2. <sup>1</sup>The Supervisory Board passes a resolution on the issuing of the audit mandate (including fees) for the statutory auditor chosen by the General Meeting. <sup>2</sup>The audit mandate contains an agreement with the statutory auditor that the chairperson of the Audit Committee shall be immediately informed of any potential grounds for exclusion or bias that emerge during the audit which cannot be immediately resolved. <sup>3</sup>The statutory auditor must also agree to immediately report all findings and incidents of significance to the work of the Supervisory Board that become known to them during the audit.
  3. The statutory auditor takes part in advising the Audit Committee and Supervisory Board in respect of the annual accounts and consolidated accounts and reports the most significant findings which emerge during the audit.
  4. <sup>1</sup>The Board of Management must take suitable measures to ensure that events that could jeopardise BayernLB, the BayernLB Group or individual units can be recognised well enough in advance. <sup>2</sup>It therefore has installed a risk management system which is examined continuously in terms of efficacy and which is described at length in the annual accounts and the consolidated accounts, as well as in the Group interim report.
- <sup>3</sup>BayernLB also has an internal audit unit which reports directly to the CEO. <sup>4</sup>As a permanently installed body, the Audit Division is responsible for auditing and assessing the effectiveness and appropriateness of the risk management and the internal control system, as well as of the regularity of all activities and processes in general.

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