



Corporate Governance Principles

4	Preamble
5	I. General information on management and structure
6	II. Board of Management, Board of Administration and other supervisory bodies
6	<i>1. The Board of Management</i>
7	<i>2. The Board of Administration</i>
8	<i>3. Collaboration between the Board of Management and Board of Administration</i>
9	<i>4. Other supervisory bodies</i>
10	III. The General Meeting
11	IV. Rules on conflicts of interest and proprietary trading
12	V. Transparency and accounting
12	<i>1. Transparency.</i>
12	<i>2. Accounting</i>
13	VI. Audit of annual accounts and risk management

Preamble

Confidence in the corporate policy of Bayerische Landesbank (BayernLB) is determined to a large extent by responsible, transparent management and controls designed to increase 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 wider public.

These Corporate Governance Principles summarise the corporate management and control regulations which apply to BayernLB, which are either legal requirements or which 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) 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 and legal requirements and changes to German and international standards. BayernLB reports on its observance of these Corporate Governance Principles in its annual report.

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

I. BayernLB's management and structure

BayernLB, an institution established under public law domiciled in Munich, has a management and supervisory structure laid down in the Bayerische Landesbank Foundation Act (BayLBG) with responsibilities split between two bodies. The Board of Management runs the Bank's business, while the Board of Administration appoints, supervises and advises the Board of Management.

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, Board of Administration and other supervisory bodies

1. The Board of Management

- a. The Board of Management manages BayernLB on its own responsibility. It derives its tasks and responsibilities from the governing laws and the BayernLB Statutes in line with the German Companies Act. It is bound by its duties under statute and the articles of incorporation, the rules of proper corporate management and the interests of the Bank. If it intentionally breaches its duty of care as a proper and conscientious manager, it is liable to BayernLB for claims for damages.
- b. The Board of Management consists of several members and has a chairperson (CEO). The Board of Administration appoints the members of the Board of Management and its CEO. The Board of Management lays down rules of procedure for itself, which require the approval of the Board of Administration. These govern cooperation and the task allocation between members.
- c. **The Board of Management works with the Board of Administration to determine and implement the Bank's strategic direction.**
- d. The tasks of the Board of Management also include the provision of adequate risk management and risk controlling. In addition, it is responsible for ensuring that legal requirements and internal guidelines are observed by all Group companies and undertakes measures for this purpose ("Compliance", see VI.4, below).
- e. The Board of Administration shall define the remuneration of the members of the Board of Management. This remuneration shall be suitable and consist of fixed and variable components. The components of the variable remuneration shall in turn comprise, in addition to the personal achievements of the particular Board of Management member, the profits contributed by the organisation unit(s) supervised by that board member and the overall profit achieved by the Bank. However, future declines in performance must also be reflected in the variable remuneration. The period of evaluation on which the variable remuneration is based and the payment intervals must therefore be sufficiently long so as to take account of the risk periods. All remuneration components must be appropriate both in themselves and as a whole; detrimental incentives to raise risk positions to disproportionately high levels must be avoided. The criteria for defining the remuneration are the tasks of the Board of Management member, his or her personal performance, the performance of the Board of Management, the economic situation, the performance and future outlook of the Bank, the remuneration for benchmark positions and the general remuneration criteria otherwise applied at the Bank. Any external remuneration expert enlisted by the Board of Administration to assess the appropriateness of the remuneration shall constitute an objective party operating independently of the interests of the Board of Management and the Bank.

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.

2. The Board of Administration

- a. It is the task of the Board of Administration to advise and monitor the Bank's management on a regular basis and to agree the Bank's business policy guidelines. The Board of Administration must be included in decisions of fundamental importance to the Bank.
- b. The Board of Administration 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. It works with the Board of Management on long-term succession planning.
- c. The Board of Administration is currently made up of eleven members. In keeping with the BayLBG, they comprise four representatives of the (indirect) shareholder Free State of Bavaria, two representatives of the (indirect) shareholder Association of Bavarian Savings Banks, one representative of the BayernLB works council and four external members. Each of the four board members representing the Free State of Bavaria is entitled to two votes. The four external members are appointed by the Free State of Bavaria. An "external" member is defined as a person who has neither a business nor a personal relationship with the Bank or its Board of Management that could give rise to a conflict of interest, and who has no direct affiliation with the indirect owners, i. e. with the Free State of Bavaria or with the Association of Bavarian Savings Banks. The members of the Board of Administration must be reliable and must possess the knowledge required for fulfilling their supervisory function and for monitoring and assessing the business conducted by the Bank.
No person entrusted with five supervisory mandates at companies regulated by the German Federal Financial Supervisory Authority shall be appointed to the Board of Administration unless these companies are part of the same inter-bank guarantee system.
- d. As the Board of Administration comprises only eleven members, its working processes can run efficiently and it can convene frequently (holding usually six ordinary meetings per year). This enables the Board of Administration to carry out all its tasks, which is conducive to an effective management of the whole Bank, rendering committees – with the exception of an Audit Committee (see below) and a Risk Committee – currently unnecessary.

- e. The Board of Administration has set up an Audit Committee, which deals primarily with issues relating to accounting, risk management, compliance and the financial accounts, the necessary objectivity of auditors, the commissioning of audits, the defining of key elements of an audit and auditors' fees. At least one member of the Audit Committee must be objective as required under Art. 41 of the 2006/43/EC Directive and possess accounting and auditing expertise. The chairperson of the Audit Committee should not hold the position of chairperson of the Board of Administration at the same time.
- f. The Board of Administration may set up other committees with advisory or decision-making powers as necessary.
- g. The chairperson of the Board of Administration coordinates the work of the Board of Administration, heads its meetings and represents its interests to other parties. The chairperson and deputy chairperson of the Board of Administration have the right to examine the business operations and all legal relationships of BayernLB. The BayLBG requires that the position of chairperson of the Board of Administration be filled by the State Minister of Finance. As a result, it is unlikely that the current CEO or other member of the Board of Management will become the chairperson of the Board of Administration.
- h. The total remuneration for the Board of Administration 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 Board of Administration

- a. The Board of Management and Board of Administration of BayernLB work closely together for the good of the Bank.
- b. In matters of fundamental importance, the German Banking Act, the Bank's Statutes and/or the Board of Administration itself confer a right of veto on the Board of Administration. Such matters include decisions and measures that would fundamentally alter BayernLB's financial or earnings position, and key lending decisions.
- c. It is the shared responsibility of the Board of Management and the Board of Administration to ensure that the Board of Administration has all the information it requires. The Board of Management reports to the Board of Administration regularly and, in the case of an extraordinary event, immediately, in detail on all important matters relating to business performance, projections, earnings and profitability, the overall risk situation, risk management and compliance. These reports are generally presented in writing. The Board of Management thereby details any deviations in business performance from the projections and targets set, and states the reasons for such deviations. The CEO immediately informs the chairperson of the Board of Administration of extraordinary incidents bearing key importance to the assessment of the Bank's situation and performance. The chairperson of the Board of Administration then passes this information on to the entire Board of Administration not later than during the following meeting of the Board of Administration. In addition, the chairperson and deputy chairperson of the Board of Administration have the rights of examination listed in II.2.e, above.

d. Good management requires open discussion between and within the Board of Management and the Board of Administration. It is therefore vital that confidentiality be adequately ensured at all times.

All members of the Board of Management and the Board of Administration undertake to ensure that the members of staff they work with respect the duty of confidentiality in the same way.

4. Other supervisory bodies

a. As a public sector institution, BayernLB is subject to government supervision by two ministries of the Free State of Bavaria. The supervisory authority has extensive rights to information and regularly participates in General Meetings and Board of Administration meetings via representatives acting in an advisory capacity. It can also lay down all necessary regulations to ensure that BayernLB's business operations satisfy the law, the Statutes and other relevant provisions.

In addition to this government supervision, BayernLB, like all German banks, is subject to general supervision by the Federal Financial Supervisory Authority (BaFin).

b. By law, BayernLB is also subject to auditing by Bavaria's supreme audit institution. In particular, the audit covers the observance of the regulations and principles applying to the management, including whether the Bank is being run economically.

III. The General Meeting

1. The General Meeting has decision-making authority on fundamental matters. 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 Board of Administration.
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. No board of staff member may demand or accept gratuities or 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.
The legal prohibition on self-dealing applies equally to members of the boards and all members of staff. Board members are also punishable as holders of office.
3. The board members are bound by the interests of the Bank. No member of the Board of Management, Board of Administration 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. No member of the Board of Management, Board of Administration 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, someone close to them or someone on whose behalf they are acting.
5. Members of the Board of Management require the approval of the Board of Administration to pursue a secondary occupation.
6. A loan may be granted to a member of the Board of Management or Board of Administration 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 Board of Administration.
7. Legal and supervisory regulations require that BayernLB, in rendering securities services, carry out special, extensive organisational, reporting and control duties designed to protect the customers and, above all, prevent conflicts of interest. The Board of Management ensures that these obligations are met by means of comprehensive compliance regulations that apply across the Group. The Compliance Officer is directly subordinate to the Board of Management 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 insider information that directly affects BayernLB so long as special circumstances do not exempt it from such duty of announcement.
- b. The dates of the key regular publications (including the annual report and interim report) and press events are published in good time as part of the ongoing PR activities.
- c. Information on BayernLB can also be obtained from the Bank's website (www.bayernlb.de). The publications can also be accessed in English.

2. Accounting

- a. 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. In particular, the annual accounts and consolidated accounts and report on the Bank and Group must be made available to shareholders and third parties. BayernLB also reports on its performance mid-way through the year in an interim report and issues a voluntary Group financial report each as per 31 March and 30 September.
The consolidated accounts and the abbreviated consolidated accounts for the interim report (as per 30 June) are prepared in keeping with international accounting standards.
- b. 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 Board of Administration. This verification is enforced, furthermore, by the accounting authority, or BaFin, which is vested with the power of examining the adherence of the consolidated accounts to the accounting provisions. The Board of Administration adopts the annual accounts and approves the consolidated accounts.
- c. Each year, BayernLB publishes a list of companies in which its shareholding is of more than marginal importance to said companies. This list may be viewed by any person. The list does not include trading positions on which voting rights are not exercised. The name and domicile of the company, size of the participation, amount of shareholders' equity and result for the previous financial year are stated.

VI. Audit of annual accounts and risk management

1. Before officially proposing a particular statutory auditor, the Board of Administration 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 the Bank or members of the Bank's boards, which might call the statutory auditor's objectivity into question. The declaration must cover the extent to which other services, in particular consultancy services, have been conducted on behalf of the Bank in the previous financial year or contractually agreed for the coming year.
2. The Board of Administration passes a resolution on the issuing of the audit mandate (including fees) for the statutory auditor chosen by the General Meeting. 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. The statutory auditor must also agree to immediately report all findings and incidents of significance to the work of the Board of Administration that emerge during the audit.
3. The statutory auditor takes part in advising the Audit Committee and Board of Administration in respect of the annual accounts and consolidated accounts and reports the most significant findings which emerge during the audit.
4. 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. In particular, it must operate a risk management system, the effectiveness of which is verified on an ongoing basis and of which special mention is made in the annual report.
BayernLB also has an Internal Audit team which reports directly to the CEO. This permanent unit conducts regular audits and special audits within the Group. It is subject to the general BaFin regulations.

Bayerische Landesbank
Brienner Strasse 18
80333 Munich
Germany
www.bayernlb.de

