

# »» Corporate Governance Report 2013

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As a member of KfW Bankengruppe, DEG – Deutsche Investitions- und Entwicklungsgesellschaft mbH has made a commitment to act responsibly and transparently, and open up its actions to scrutiny. The Management Board and the Supervisory Board of DEG accept the principles of the German Federal Government's Public Corporate Governance Code (PCGC) on behalf of DEG. A first Declaration of Conformity in respect of compliance with the PCGC's recommendations was made on 30 March 2011. A declaration and explanation of any departures from the code has been made annually since then.

DEG has operated as a legally independent, wholly owned subsidiary of KfW since 19 June 2001. Its rules and regulations (Articles of Association, rules of procedure for the Supervisory Board and its committees, and rules of procedure for the Management Board) specify the basic features of the system via which it is managed and controlled by its corporate bodies.

## Declaration of Conformity

The Management Board and the Supervisory Board of DEG make the following declaration: "Since the last declaration of conformity on 25 March 2013, the recommendations of the Federal Government's PCGC, passed on 1 July 2009, have been and are being complied with, excepting only the recommendations below."

### Deductible for D&O insurance

With effect from 1 January 2013, KfW has entered into new D&O insurance contracts for members of its Executive Board and its Board of Supervisory Directors. As corporate insur-

ance, these contracts also extend protection to the members of DEG's Management and Supervisory Boards. Whereas previous contracts – in a departure from sub-paragraph 3.3.2 of the code – did not provide for a deductible, the new ones include an option to introduce such a deductible. A decision on whether to exercise the option will be taken in consultation with the Chairman and the Deputy Chairman of KfW's Board of Supervisory Directors. Until such a decision is taken, the departure from PCGC paragraph 3.3.2 remains.

### Delegation to committees

The Supervisory Board is relieved of a portion of its workload by its committees, which benefit from greater familiarity with the issues and flexibility of scheduling. Where a matter cannot be referred to the Supervisory Board in cases under article 10 section 5 no. 4 of the Articles of Association (measures and transactions of special importance), because a quick decision is required, the Executive Committee is empowered to decide in place of the Supervisory Board in an individual case under article 10 section 8 of the Articles and in departure from sub-paragraph 5.1.8 of the code. This prevents the company suffering any economic disadvantage due to an extended delay. This option did not come into play in 2013.

### Responsibilities

With the agreement of the Supervisory Board and the Shareholder, the Management Board has compiled a set of procedural rules relating to cooperation in managing the business. Under these rules, the Management Board alone lays down areas of responsibility in a schedule of responsibilities with the agreement of the Shareholder, but – in a departure from paragraph 4.2.2 PCGC – without the additional agreement of

the Supervisory Board. This is designed to ensure the necessary flexibility where changes are required, and hence an efficient division of labour.

### Loans to members of corporate bodies

Under the rules of procedure for DEG's Supervisory Board and its committees, as well as for the Management Board, DEG is not permitted to grant individual loans to members of the Management and Supervisory Boards. However, in an effort to ensure equal treatment and in a departure from sub-paragraph 3.4 of the code, this ban does not apply to taking advantage of promotional loans provided by KfW programmes. Given the principle of delivery via the borrowers' banks, and because the granting of these loans has been standardised, these programme loans present no risk of conflicts of interest.

## Cooperation of Management Board and Supervisory Board

The Management Board and the Supervisory Board work closely together for the benefit of DEG. The Management Board, especially its Chairman, maintains regular contact with the Chairwoman of the Supervisory Board. The Management Board discusses significant issues of corporate management and strategy with the Supervisory Board. If an important cause arises, the Chairwoman or Chairman of the Supervisory Board informs the Board and calls an extraordinary meeting if necessary.

In the year under review, the Management Board provided comprehensive information to the Supervisory Board on all corporate issues of relevance to DEG, especially matters to do with profitability, the financial and net worth position, the risk situation, risk management, the internal control system, and general business development; it also discussed the strategic direction with the Supervisory Board.

## Management Board

The members of the Management Board conduct DEG's business with the care of a fit and proper business person in accordance with the law, the Articles of Association, the rules of procedure for the Management Board and the decisions of the Shareholder's Meeting and the Supervisory Board.

With the agreement of the Supervisory Board, the Shareholder reappointed Bruno Wenn as Chairman of the Management Board for a further period of 5 years with effect from 1 October 2014. He has held the post since 1 October 2009.

In the year under review, the areas of responsibility changed due to an organisational revamp with effect from 1 December 2013. Over the course of the year, the members of DEG's Management Board had the following areas of responsibility:

Bruno Wenn as Chairman of the Management Board:

- Corporate Management Division,
- Regions Division 1,
- To 1 December 2013: Sectors Division 2; as of 1. December 2013: Sectors Division,
- Treasury,
- Internal Audit.

Dr. Michael Bornmann:

- Regions Division 2 (excluding Treasury),
- To 1 December 2013: Sectors Division 1,
- German Corporates/Special Programmes Division,
- Legal and Compliance Division.

Philipp Kreutz:

- Finance/Controlling Division (from 31 December 2013: Finance/Risk),
- Risk Management Division (from 31 December 2013: Credit Management/Analysis),
- In-house Services Division.

In accordance with the executive directors' decision of 12 November 2013, the divisions Risk Management and Finance/Controlling were renamed with effect from 31 December 2013 as Credit Management/Analysis and Finance/Risk respectively.

The members of the Management Board are committed to DEG's corporate interest, may not pursue their personal interests in decision-making, and are subject to a comprehensive non-compete obligation while acting for DEG. The members of the Management Board must immediately inform the Shareholder of any conflicts of interest arising. During the year under review, no such case occurred.

## Supervisory Board

The Supervisory Board advises and monitors the Management Board as it manages DEG.

DEG has a voluntary Supervisory Board. Its membership is made up of representatives of the German Federal Government, the Shareholder, the private sector, and civilian society.

Under DEG's Articles of Association, the Supervisory Board shall have a minimum of eight and a maximum of twelve members, of whom four shall be representatives of the German Federal Government – one each from the Federal Ministry for Economic Cooperation and Development, the Federal Ministry of Finance, the Federal Foreign Office and the Federal Ministry of Economic Affairs and Energy – and two shall be representatives of KfW. The chair of the Supervisory Board rests with the representative of the Federal Ministry for Economic Cooperation and Development. In the year under review, Parliamentary State Secretary Gudrun Kopp held the office of Chairwoman until she resigned her mandate on 23 December

2013. In the year under review, the number of women on the Supervisory Board was as follows: three up to 17 June 2013; two from 18 June to 23 December 2013; and one from 24 December 2013.

At no time shall the Supervisory Board include more than two former members of the company's Management Board. Furthermore, no-one already exercising five control mandates with an enterprise being supervised by the German Federal Financial Supervisory Authority may be appointed as a member of the Supervisory Board. The members proposed by the German Federal Government shall as a rule not exercise more than three mandates in supervisory bodies at any one time. Any conflicts of interest shall be disclosed to the Supervisory Board. During the period under review, no such case occurred. During the year under review one member of the Supervisory Board attended fewer than half of the meetings of the Supervisory Board.

### Committees of the Supervisory Board

With a view to achieving greater efficiency in pursuing its advisory and supervisory activities, the Supervisory Board has formed two committees.

The Executive Committee is responsible for personnel matters and the principles of corporate governance as well as – where necessary – preparing for meetings of the Supervisory Board; it also takes pressing decisions on urgent matters.

The Audit Committee is responsible for issues relating to accounting, risk management, the effectiveness of the internal control system and internal audit, as well as preparations for assigning the auditors and setting priorities for the annual audit.

The committee chairs report regularly to the Supervisory Board. The Supervisory Board is entitled to change or withdraw the competences transferred to the committees at any time.

In its report, the Supervisory Board provides information about its own work and the work of its committees during the year under review. A summary listing the members of the Supervisory Board and its committees may be found on DEG's website.

## Shareholder

DEG's sole Shareholder is KfW. The Shareholder's Meeting is responsible for all matters not assigned, by law or by the Articles of Association, to another body as its exclusive responsibility; in particular for: approving the annual statements of accounts and the appropriation of the annual result or net income; determining the sum available within the company for variable remuneration components; appointing and relie-

ving members of the Supervisory Board; discharging members of the Supervisory and Management Boards from their liability; and appointing the auditor of the annual accounts. Members of the Management Board require the prior agreement of the Shareholder's Meeting to conduct negotiations at CEO level that exceed the scope of the company's ordinary operations.

## Supervision

DEG is a credit institution within the meaning of section 1 (1) of the Banking Act of the Federal Republic of Germany (KWG). The German Federal Financial Supervisory Authority (BaFin) has issued revocable exemptions to DEG as per KWG section 2 (4), which partially exempt it from the provisions of the act. However, DEG does on the whole apply the relevant standards of the Banking Act *mutatis mutandis*, especially the minimum requirements for risk management (MaRisk).

## Public benefit

Under article 2 (1) of its Articles of Association, DEG exclusively and directly serves the public benefit purpose of promoting development cooperation as per section 52 of the German Fiscal Code (AO). It operates altruistically within the meaning of AO section 55.

## Transparency

DEG makes key information about the company and its annual statements of accounts available on its website. The Communications Department also provides regular updates on current developments involving the company. The annual Corporate Governance Reports, including the Declaration of Conformity in respect of the Public Corporate Governance Code PCGC, are permanently available on DEG's and KfW's websites.

## Risk management

Risk management and risk controlling are key management tasks at DEG. The Management Board draws up the risk strategy, establishing the framework for business activities in relation to risk tolerance and risk capacity. This ensures that DEG is able to maintain an acceptable risk profile while fulfilling its special tasks sustainably and over the long term. Monthly risk reports to the Management Board present a comprehensive analysis of the bank's overall risk situation. The Supervisory Board is regularly given a detailed update on the risk situation at least once per quarter.

## Compliance

DEG's success depends to a significant degree on the trust which the Shareholder, clients, business partners, staff members and the public place in its efficiency and especially its integrity. This trust is rooted, in part at least, in the implementation of, and compliance with, the relevant legal and regulatory requirements and internal rules as well as other applicable laws and regulations. DEG's compliance organisation includes, in particular, provisions to ensure that data protection rules are followed, to guarantee securities compliance and prevent money laundering, the financing of terrorism and other criminal activities. Accordingly, there are binding regulations and procedures that influence day-to-day values and corporate culture; these are continuously updated to reflect the legal framework as well as market requirements. Regular training on compliance and money laundering is available to DEG employees.

## Accounting and annual audit

On 26 March 2013 DEG's Shareholder appointed KPMG AG Wirtschaftsprüfungsgesellschaft as the auditor for the 2013 financial year. The Supervisory Board subsequently issued the audit mandate to KPMG on 8 July 2013 and set the priorities for the audit with the auditor. An agreement was reached with the auditor that the Chairwoman of the Supervisory Board would immediately be informed of any grounds for disqualification or bias while the audit was ongoing, unless such grounds could be rectified at once. It was additionally agreed that the auditor would instantly inform the Chairwoman of the Supervisory Board of any qualified remarks and potential misstatements in the Declaration of Compliance with the PCGC. A declaration of the auditor's independence was obtained.

## Efficiency review of the Supervisory Board

The Supervisory Board reviews the efficiency of its activities regularly every two years. The Supervisory Board's most recent self-evaluation for the 2012 financial year was conducted using structured questionnaires. At the time, the

Supervisory Board numbered twelve members, ten of whom took part. The survey showed that the members of the Supervisory Board rate the work and efficiency of both the Board as a whole and its committees as "good" on average. Both the Supervisory Board and the Management Board have addressed opportunities for improvement.

## COMPENSATION REPORT

The compensation report describes the basic structure of the remuneration system for the Management Board and the Supervisory Board and discloses the individual remuneration for members of both boards. The compensation report is part of the appendix to the annual statements of accounts.

### Remuneration of the Management Board

The remuneration system for DEG's Management Board is designed to provide appropriate compensation for Board members in accordance with their remit and areas of responsibility, taking into account their performance and the company's success.

### Remuneration components

On 25 March 2013 DEG's Supervisory Board voted to retain without change the remuneration system for DEG's Management Board agreed on 18 March 2010. This system meets PCGC rules on variable remuneration components and includes a balanced mix of short and medium-term incentives. For instance, only half of performance-related management bonuses, as measured by the meeting of targets, is immediately paid to the Management Board; the other half only constitutes a provisional claim and is paid out from a "bonus account" in equal instalments over the following three years, provided business performance has not declined substantially. If the agreed profitability target is not met in subsequent years, payments from the bonus account shall be subject to a penalty.

### Compensation for the Management Board and members of the Supervisory Board

EUR thousand	2013	2012	Change
Management Board	1,350	1,225	125
Previous members of the Management Board & surviving dependants	744	729	15
Members of the Supervisory Board	11	13	-2
<b>Total</b>	<b>2,105</b>	<b>1,967</b>	<b>138</b>

The summary on page 12 shows total compensation broken down by fixed and variable components and benefits in kind. It also shows transfers to pension provision for individual members of the Management Board as well as the balance of their bonus accounts.

## Responsibility

The Shareholder discusses the remuneration system for the Management Board, including contractual elements, and reviews it regularly. The Shareholder agrees the remuneration system following consultation with the Supervisory Board. The adequacy of the level of remuneration was most recently reviewed in March 2013.

## Benefits in kind

Benefits in kind primarily include contractual fringe benefits. Members of the Management Board are entitled to a company car and driver for both business and personal use. In new contracts, the entitlement to a driver is no longer part of the contractual agreement. Any costs incurred as a result of personal use of the company car and driver are met by the members of the Management Board as per current tax regulations. If a second residence is required for business purposes, the costs of running a second household are reimbursed as per tax regulations.

Members of the Management Board are insured under a group accident insurance policy. Health and long-term care insurance are subsidised. In respect of the risks associated with their

management activities on the governing bodies, members of the Management Board are insured under a policy that covers their liability for monetary damages (D&O insurance) and a supplementary policy covering them for monetary damages and legal expenses. These insurance policies are designed as group insurance. Currently, no deductible has been agreed. Members of DEG's Management Board are also covered in the exercise of their duties by a special group insurance policy for employees that meets any legal expenses incurred as a result of criminal prosecution.

Like all senior executives, members of the Management Board are entitled to participate in the Deferred Compensation Scheme, a supplementary company pension plan via deferred compensation payments deducted from salary.

Contractual fringe benefits also include the costs of security measures carried out at residential properties occupied by members of the Management Board; the provision of this security is accounted for under operating charges rather than as benefits in kind.

Where they cannot be granted on a tax free basis, contractual fringe benefits are subject to taxation as non-cash benefits, with any tax payable by the members of the Management Board. In 2013 no member of the Management Board was in receipt of a loan from DEG or KfW.

No member of the Management Board received benefits, or a pledge to that effect, from a third party in respect of his activities as a member of DEG's Management Board.

## Annual compensation of members of the Management Board and transfers to pension provision for 2012 and 2013

EUR thousand		Salary	Variable compensation	Benefits in kind <sup>1)</sup>	Total	Bonus account	Transfers to pension provision
Bruno Wenn (Chairman)	2013	340.7	66.9	19.1	426.7	80.2	252.4
	2012	327.0	53.6	13.4	394.0	67.2	164.0
Dr. Michael Bornmann	2013	340.7	67.5	28.8	437.0	80.8	285.9
	2012	327.0	53.1	24.5	404.6	66.3	119.8
Philipp Kreutz	2013	340.7	66.7	45.6 <sup>2)</sup>	453.0	80.0	350.2
	2012	327.0	53.6	12.3	392.9	67.2	41.3
<b>Total<sup>1)</sup></b>	<b>2013</b>	<b>1,022.1</b>	<b>201.1</b>	<b>93.5</b>	<b>1,316.7</b>	<b>241.0</b>	<b>888.5</b>
	<b>2012</b>	<b>981.0</b>	<b>160.3</b>	<b>50.2</b>	<b>1,191.5</b>	<b>200.7</b>	<b>325.1</b>

<sup>1)</sup> In a departure from the figures in the appendix, this table does not include the employer's contribution as per the Social Security Act. The previous year's figures have been amended accordingly to provide a better basis for comparison. The total for 2013 is EUR 32.9 thousand (previous year EUR 32.9 thousand).

<sup>2)</sup> A one-off payment was made to Mr. Kreutz in recognition of his 25 years of service to the company. This was made up of one month's salary and a single payment of EUR 250.

## Retirement pensions for former members of the Management Board or surviving dependants

	Number 2013	EUR thousand 2013	Number 2012	EUR thousand 2012
Former members of the Management Board	5	538.9	5	524.2
Surviving dependants	3	204.8	3	205.2
<b>Total</b>	<b>8</b>	<b>743.7</b>	<b>8</b>	<b>729.4</b>

### Entitlement to a retirement pension and other benefits in case of early retirement or departure

Under Article 5 section 1 of the Articles of Association of DEG – Deutsche Investitions- und Entwicklungsgesellschaft mbH the appointment of a member of the Management Board shall not extend beyond attainment of the statutory retirement age. After reaching the age of 65 or statutory retirement age respectively, and following expiry of their contract of employment as executive directors, members of the Management Board are entitled to pension payments. At their own request, they may take early retirement once they have reached the age of 63. If the employment is not renewed, and no important reason as per Article 626 of the German Civil Code applies to the person of the member of the Management Board, he or she is entitled to agree a transitional allowance for the period until pension payments become due. Furthermore, members of the Management Board are also entitled to pension payments if their service ends due to permanent invalidity.

Pension commitments for members of the Management Board and surviving dependants are based on the principles governing the employment of board members at German federal credit institutions (1992 version). The provisions of PCGC are taken into account in drawing up contracts of employment for executive directors.

Where members of the Management Board were appointed or re-appointed as executive directors after 2011, a cap on any severance package has been included in their contracts of employment in keeping with PCGC recommendations. Any pay-off to a member of the Management Board due to early termination of his or her activities as executive director without important cause as per Article 626 of the German Civil Code, will accordingly be limited to double annual salary or the compensation, including fringe benefits, due for the remaining period of his or her contract, whichever is lower.

In general, full retirement pension entitlement is equivalent to 49% of annual fixed remuneration. At initial appointment, the retirement pension entitlement routinely amounts to 70% of the full entitlement and rises over a period of ten years by 3% for every completed year of service.

If the employment contract of a member of the Management Board is terminated, or not renewed, due to a significant reason as per Article 626 of the German Civil Code, any pension entitlements are void in keeping with the principles developed by employment contract case law.

Pension payments to former members of the Management Board and surviving dependants amounted to EUR 729.5 thousand in 2012 and EUR 743.7 thousand in 2013.

EUR 72.7 thousand were transferred in respect of pension obligations towards former members of the Management Board and their surviving dependants as at the end of the financial year (prev. year: EUR 40.7 thousand).

No loans were provided to former members of the Management Board or their surviving dependants in the 2013 financial year.

### Compensation for the Supervisory Board

Members of the Supervisory Board receive appropriate compensation, the level of which is set by the Shareholder's Meeting as per article 13 (1) of DEG's Articles of Association, taking account of the company's character as an institution serving the public benefit.

In the year under review, compensation for ordinary members amounted to EUR 2,045. Chairmanship of the Supervisory Board attracts compensation in the sum of EUR 3,323, while the two Deputy Chairmen receive EUR 2,556 each. Members of the Audit Committee each receive annual compensation of EUR 511, provided their fixed remuneration does not exceed EUR 2,045. Membership of the Executive Committee does not attract separate compensation, nor does chairing the committees.

Where membership only covers part of a year, remuneration is paid pro rata.

An attendance fee (EUR 31 per day of attendance), a daily allowance (EUR 12 per day of attendance) and an accommodation allowance (EUR 20) are paid on request. Any travel expenses incurred and any value-added tax payable are reimbursed.

As of 1 July 2011 representatives of KfW serving on DEG's Supervisory Board have declined to claim remuneration and attendance fees. This is in accordance with a fundamental and open-ended decision by the Supervisory Board of KfW.

The tables on p. 15 provide details of the Supervisory Board's remuneration for the 2012 and 2013 financial years; the sums shown are EUR net and have all been paid. Travel expenses and other miscellaneous expenses were reimbursed upon presentation of receipts and are not included in the table.

There are no pension obligations towards members of the Supervisory Board.

In the year under review, members of the Supervisory Board received no remuneration for services provided personally.

In respect of the risks associated with their activities as officers of the Supervisory Board, members of the Supervisory Board are insured under a policy that covers their liability for monetary damages (D&O insurance) and a supplementary policy covering them for monetary damages and legal expenses. These insurance policies are designed as group insurance. Currently, no deductible has been agreed. Members of the Supervisory Board are also covered in the exercise of their duties by a special group insurance policy for employees that meets any legal expenses incurred as a result of criminal prosecution.

No loans were made to members of the Supervisory Board during the year under review.

Cologne, 26 March 2014

Management Board

Supervisory Board



## Compensation of members of the Supervisory Board for the 2012 and 2013 financial years

EUR

No.	Name	Period of membership 2013	Supervisory Board membership	Committee member	Daily allowance and attendance fee	Total
1.	Gudrun Kopp <sup>1)</sup>	1 Jan–31 Dec	-	-	-	0
2.	Dr. Norbert Kloppenburg <sup>1)</sup>	1 Jan–31 Dec	-	-	-	0
3.	Dr. Hans-Jörg Todt	1 Jan–16 Jun	1,169	-	62	1,231
4.	Dr. Harald Braun <sup>2)</sup>	1 Jan–31 Dec	2,045	-	86	2,131
5.	Eberhard Brandes <sup>3)</sup>	1 Jan–31 Dec	2,045	-	-	2,045
6.	Ernst Burgbacher <sup>1)</sup>	1 Jan–17 Dec	-	-	-	0
7.	Cécile Couprie <sup>1)</sup>	1 Jan–16 Jun	-	-	-	0
8.	Arndt G. Kirchhoff	1 Jan–31 Dec	2,045	-	129	2,174
9.	Hartmut Koschyk <sup>1)</sup>	1 Jan–31 Dec	-	-	-	0
10.	Siegmar Mosdorf	1 Jan–16 Jun	936	-	43	979
11.	Dr. Ulrich Schröder <sup>1)</sup>	1 Jan–31 Dec	-	-	-	0
12.	Prof. Dr. Beatrice Weder di Mauro	1 Jan–16 Jun	936	-	-	936
13.	Corinna Linner	17 Jun–31 Dec	1,387	-	136	1,523
<b>Total</b>			<b>10,563</b>	<b>0</b>	<b>456</b>	<b>11,019</b>

EUR

No.	Name	Period of membership 2012	Supervisory Board membership	Committee member	Daily allowance and attendance fee	Total
1.	Gudrun Kopp <sup>1)</sup>	1 Jan–31 Dec	-	-	-	0
2.	Dr. Norbert Kloppenburg <sup>1)</sup>	1 Jan–31 Dec	-	-	-	0
3.	Dr. Hans-Jörg Todt	1 Jan–31 Dec	2,556	-	179	2,735
4.	Dr. Harald Braun <sup>2)</sup>	1 Jan–31 Dec	2,045	-	62	2,107
5.	Eberhard Brandes <sup>3)</sup>	1 Jan–31 Dec	2,045	-	-	2,045
6.	Ernst Burgbacher <sup>1)</sup>	1 Jan–17 Dec	-	-	-	0
7.	Cécile Couprie <sup>1)</sup>	1 Jan–31 Dec	-	-	-	0
8.	Arndt G. Kirchhoff	1 Jan–31 Dec	2,045	-	43	2,088
9.	Hartmut Koschyk <sup>1)</sup>	1 Jan–31 Dec	-	-	-	0
10.	Siegmar Mosdorf	1 Jan–31 Dec	2,045	-	172	2,217
11.	Dr. Ulrich Schröder <sup>1)</sup>	1 Jan–31 Dec	-	-	-	0
12.	Prof. Dr. Beatrice Weder di Mauro	1 Jan–31 Dec	2,045	-	-	2,045
<b>Total</b>			<b>12,781</b>	<b>0</b>	<b>456</b>	<b>13,237</b>

<sup>1)</sup> Remuneration not claimed

<sup>2)</sup> The German federal regulation on secondary employment applies to this sum

<sup>3)</sup> Remuneration donated to WWF