
Corporate Governance report

Implementing the recommendations and suggestions of the German Corporate Governance Code

Where useful and applicable, the comdirect group bases its corporate governance standards on the German Corporate Governance Code (GCGC). The comdirect group also believes that the recommendations and suggestions in the GCGC regarding efficient cooperation between the Board of Managing Directors and the Supervisory Board, alignment with the rights and interests of the shareholders and openness and clarity in corporate communications are key aspects of good corporate governance.

Apart from the inclusion of current legal regulations and editorial revisions, the GCGK version of 5 May 2015 includes two substantial changes over its earlier version:

- Section 3.4 of the GCGK now includes the recommendation that the Supervisory Board more precisely define the information and reporting duties of the Board of Managing Directors. This has already been standard practice at comdirect for many years, as the information and reporting duties are written into the Rules of Procedure of the Board of Managing Directors.
- Under Section 5.4.1 the Code stipulates that the Supervisory Board makes sure, in its proposals to the annual general meeting for election of new Supervisory Board members, that each of their candidates is able to spare the time required. This recommendation also corresponds to current standard corporate governance practice at comdirect.

With its resolution of 28 August 2015, the Supervisory Board has fulfilled the legal requirements for determining quotas for women in the Board of Managing Directors and Supervisory Board, and limitations on the length of service on the Supervisory Board now listed under Sections 5.1.2 and 5.4.1.

comdirect bank continues to deviate from the recommendations of the GCGC in the following areas:

Pursuant to Section 4.2.3, compensation of members of the Board of Managing Directors is to be capped for variable compensation components. This recommendation is not observed because variable compensation is in part share-based and, depending on share price developments, is theoretically unlimited. A limit would not be appropriate, in particular in view of the fact that there is no cap on price losses.

Section 4.2.3 also recommends that, in the case of variable compensation components for members of the Board of Managing Directors, the possibility of changing performance targets or comparative parameters retrospectively should be excluded. comdirect bank does not follow this recommendation due to the implementation of Germany's Remuneration Regulation Institutions (InstitutsVergV). This stipulates that the management or supervisory body should agree a possibility of limitation (cap) with regard to the variable compensation in the event of extraordinary developments. The Supervisory Board of comdirect bank AG is accordingly authorised to adjust the targets and other parameters for the variable compensation components in the event of extraordinary developments in order to appropriately neutralise both positive and negative influences on the attainment of targets.

In accordance with Section 4.2.3, for pension schemes the Supervisory Board shall establish the level of provision aimed for in each case – also considering the length of time for which the individual has been a Management Board member – and take into account the resulting annual and long-term expense for the company. This recommendation is not followed. This is because a specific benefit level is no longer defined as the pension system was changed over to a defined contribution pension scheme in 2011. A detailed explanation is given in the joint Declaration of Compliance by the Board of Managing Directors and the Supervisory Board.

Another deviation relates to Section 5.3.3 of the Code. According to this recommendation, the Supervisory Board should form a nomination committee which is composed solely of representatives of the shareholders and which suggests suitable candidates to the Supervisory Board for its election proposals to the annual general meeting. The Supervisory Board of comdirect bank comprises a total of six members, four of whom are shareholder representatives. Forming an additional committee from its membership would in our opinion be an "excessive structuring" of the Board. The duties of a nomination committee in accordance with Section 25d, (11), of the German Banking Act (KWG) have therefore been assigned to the full Supervisory Board in accordance with a Supervisory Board resolution.

As in the previous year, comdirect implements all of the suggestions of the German Corporate Governance Code without exception.

Information relating to Corporate Governance

The Corporate Governance statement, including the Declaration of Compliance and the Corporate Governance Report, adopted on 18 March 2016 at the accounts meeting of the Supervisory Board are available on the company website at www.comdirect.de/ir under Corporate Governance. Previous versions of the above documents as well as the Articles of Association and the full German Corporate Governance Code can also be viewed there. In addition, the website includes information on current possible changes to our Corporate Governance standards.

Compliance

The requirements for the compliance function according to the minimum requirements for risk management (MaRisk) were also implemented comprehensively at comdirect in the 2015 financial year. The central compliance function ensures compliance with the corresponding regulations and supports and advises the decentralised divisions with regard to fulfilment of their duties relating to compliance-relevant (MaRisk) issues. This cooperation, accompanied by the corresponding communications and involvement of the executive bodies, ensures that the identified relevant legal requirements are met, thus effectively countering risks relating to potential non-compliance with such regulations.

Directors' dealings

There were no notifiable acquisitions or disposal transactions that were subject to a disclosure obligation transacted by members of executive bodies or managers in positions of particular responsibility at comdirect bank in financial year 2015.

Information on additional corporate governance practices and the procedures of the Board of Managing Directors and Supervisory Board

Dual system of leadership

In accordance with legal requirements, comdirect bank has a dual system of leadership. This assigns the management of the company to the Board of Managing Directors and the monitoring of the company to the Supervisory Board. The two bodies are strictly separate from one another in terms of their membership and powers.

Management by the Board of Managing Directors

The Board of Managing Directors is responsible for managing the company. In doing so, it is bound by the interests of the company and committed to increasing the sustainable value of the company. The Board develops the strategic focus of the company, agrees it with the Supervisory Board and ensures its implementation. The Board of Managing Directors manages the business activities of the company in line with the legal provisions, the Articles of Association, its Rules of Procedure and the respective contracts of employment. The Board works with the other bodies of the company and the employee representatives in a cooperation based on trust in the interests of the company.

The members of the Board of Managing Directors jointly bear responsibility for the overall management of the company. They work cooperatively together and keep each other informed of important measures and issues in their divisions on an ongoing basis. The Rules of Procedure of the Board of Managing Directors determine the structuring of the Board's activities. In detail this relates to

- the allocation of duties, which stipulates the business divisions for which the respective member of the Board of Managing Directors is responsible,
- the decisions to be taken by the full Board of Managing Directors,
- the particular duties of the CEO,
- transactions requiring the approval of the Supervisory Board,
- regular, timely and comprehensive information for the Supervisory Board and
- rules relating to meetings and resolutions.

Monitoring and advisory function of the Supervisory Board

The Supervisory Board works in close partnership with the Board of Managing Directors of comdirect bank; it monitors the Board of Managing Directors and provides regular advice on all major issues relating to the management of the company. It comprehensively performs all of the duties incumbent upon the Supervisory Board under the legal framework conditions and regulations, the bank's Articles of Association, the Rules of Procedure of the Supervisory Board and the German Corporate Governance Code (GCGC). It reviews the efficiency of its activities on an annual basis. In line with the Articles of Association, the Supervisory Board comprises six members. Four members are elected by the shareholders at the annual general meeting and two members by the employees in accordance with the One Third Participation Act (DrittelbG).

The Rules of Procedure of the Supervisory Board relate, amongst others, to

- the required professional skills of the members,
- the limitation of the number of seats on supervisory boards of other listed companies as well as the waiting period for former members of the Board of Managing Directors,
- the election and duties of the Chairman of the Supervisory Board and his Deputy,
- the convening of meetings,
- the adoption of resolutions during meetings or via alternative resolution processes,
- the confidentiality obligation and duty of disclosure in the event of conflicts of interest.

Supervisory Board committees

To improve the efficiency of the Supervisory Board's activities and to deal with complex matters, the Supervisory Board, in accordance with the Rules of Procedure, refers some issues to committees formed from its members for a decision or for preparation of resolutions. At present these are the Presiding Committee and the Risk and Audit Committee. Both committees comprise the Chairman of the Supervisory Board and two further members of the Supervisory Board.

The Presiding Committee essentially monitors compliance with the Rules of Procedure for the Board of Managing Directors and prepares decisions for the full Supervisory Board regarding the appointment and removal of members of the Board of Managing Directors as well as the compensation system.

The Risk and Audit Committee is concerned in particular with monitoring the accounting process, the effectiveness of the internal control system, risk management system and internal audit system and the audit of the financial statements, here in particular the independence of the auditor, the services additionally rendered by the auditor, the issuing of the audit mandate to the auditor, the determination of auditing focal points and the fee agreement as well as Compliance.

The Chairman of the Risk and Audit Committee has particular expertise and experience in the application of accounting principles and internal control procedures. The duties and powers of the Presiding Committee are regulated in the Supervisory Board's Rules of Procedure. The Risk and Audit Committee has separate Rules of Procedure.

Cooperation between the Board of Managing Directors and the Supervisory Board

The Board of Managing Directors informs the Supervisory Board on a regular, timely and comprehensive basis, about all matters relating to planning, business development, the risk position and risk management that are relevant to the bank. The Board of Managing Directors reports quarterly on the implementation of budget planning for the financial year and explains and gives reasons for any variances in business activities relative to such projections and targets. The Board of Managing Directors immediately forwards information that is material from a risk point of view to the Supervisory Board.

Certain transactions, such as the acquisition and disposal of companies, offices, real estate, material changes to the structure of the company or business strategy and the formulation of employee participation models, require the prior approval of the Supervisory Board or corresponding committee. All of the documentation relevant to decisions, particularly the annual financial statements, consolidated financial statements and audit report, are provided to the members of the Supervisory Board in good time prior to the respective meeting.

Composition of the Board of Managing Directors and Supervisory Board, as well as Supervisory Board Committees

The current composition of the Board of Managing Directors can be viewed on the company website at www.comdirect.de in the section Company under the heading About us. The composition of the Supervisory Board and its committees is also detailed there.

Objectives of the Supervisory Board in terms of its composition (Section 5.4.1 (3), clause 2 GCGC)

At its meeting on 25 August 2015, the Supervisory Board of comdirect bank AG resolved the following additional objective. The targets set have been achieved in full:

“Person specification for members of the Supervisory Board of comdirect bank AG

The person specification for members of the Supervisory Board and objectives for the composition of the Supervisory Board of comdirect bank are aimed at ensuring an orderly selection process with objective requirements applied for the election of new members of the Supervisory Board for comdirect bank.

1. Objective for composition of the Supervisory Board

The aim is for the composition of the Supervisory Board to ensure the qualified supervision of and advice for the management of the bank by the Supervisory Board. It cannot be expected that every single member of the Supervisory Board possesses all the necessary expertise, skills and experience to the full extent. Nevertheless, at least one member of the Supervisory Board should be available as a competent contact partner for each aspect of Supervisory Board activity so that the extensive expertise and experience is reflected by the members of the Supervisory Board as a whole.

However, certain indispensable general knowledge, expertise and experience is required of every member of the Supervisory Board. Taking into account the general age limit of 72 years set by the Supervisory Board, candidates are to be proposed who through their integrity, motivation, independence and character are in a position to perform the tasks of a Supervisory Board member of a modern retail bank and to maintain and enhance the reputation of comdirect bank in the public domain. With regard to the shareholder representatives, at least one independent member within the meaning of Section 5.4.2 of the German Corporate Governance Code should be represented on the Supervisory Board. Diversity is to be taken into account in the composition of the Supervisory Board. By 30 June 2017, the proportion of women in the Supervisory Board shall be at least 30%. Membership of the Supervisory Board should not usually last longer than three terms of appointment, as determined in the Articles of Association.

2. Expertise, skills and professional experience

In addition to the general requirements in terms of education, reliability, professional experience and suitability, each member of the Supervisory Board should also meet the following criteria:

- a general understanding of the banking business, especially the market environment, individual business lines, needs of customers and strategic focus of the bank;
- the ability to understand and evaluate the reports presented to the Supervisory Board and to draw independent conclusions from these;
- the ability to judge the correctness, economic efficiency, expediency and legality of the business decisions to be evaluated;
- the ability to evaluate the documentation relating to the annual financial statements, if necessary with the assistance of the auditor;
- commercial experience from positions in corporate management or as a senior executive and/or member of a supervisory board or comparable body.

Furthermore, if possible each member of the Supervisory Board should possess specialist expertise that is important for the business operations of comdirect bank. Proposals for candidates for the Supervisory Board should take account of a balanced composition for the Board, so that the desired professional expertise is as broadly represented as possible in the Supervisory Board.

In the event of a forthcoming new appointment, it should first be ascertained which desirable professional skills are missing from the Supervisory Board or should be strengthened, and the appropriate candidates then identified.

3. Personal requirements for members of the Supervisory Board

Before a candidate is proposed, the business and personal relations of the candidate with comdirect bank and its competitors should be checked.

The Supervisory Board should include an appropriate number of independent members. A member is not considered independent in particular if he/she has personal or business relations with the bank, its Board of Managing Directors, a controlling shareholder or a company associated with the latter, which may cause a substantial and not merely temporary conflict of interest.

Prior to making a nomination proposal, it should be ascertained with sufficient certainty that the proposed candidate has enough time to perform his/her Supervisory Board mandate, so that he/she can perform the mandate with the due regularity and care.

Care should be taken to ensure that the proposed candidates comply with the age limit specified by the Supervisory Board of 72 years and that no more than two former members of the Board of Managing Directors of comdirect bank sit on the Supervisory Board. Exceptions must be specifically justified.

4. Regular review

The extent to which the members of the Supervisory Board meet the above criteria, and the extent to which the composition of the Supervisory Board complies with the objectives stated under point 1, should be reviewed at regular intervals and at least every two years."

Determining quotas for women and information on target attainment

On 29 September 2015, the Board of Managing Directors set targets for quotas for women in both management levels below the Board of Managing Directors. They stipulate that at least 25% of the leadership roles at the first management level and at least 20% at the second management level be filled by women. As of the end of 2015, the quota for women was 23.5% at the first and second levels below the Board of Managing Directors. According to legal requirements, the quotas should be achieved by 30 June 2017 at the latest.

In its meeting of 25 August 2015, the Supervisory Board further determined that the proportion of women on the Supervisory Board and Board of Managing Directors should amount to at least 30% and 25% respectively by 30 June 2017. Both targets set by the Supervisory Board were already achieved by the end of 2015.

Quickborn, 18 March 2016

The Board of Managing Directors

The Supervisory Board