

Report of the Board of Supervisory Directors



Dr Wolfgang Schäuble, Federal Minister of Finance

Meetings of the Board of Supervisory Directors

The Board of Supervisory Directors and its committees constantly monitored the conduct of KfW's business activities and the management of its assets. It has taken the necessary decisions on the provision of financing and the conduct of other business in accordance with the conditions set forth in the KfW Law and Bylaws. The Board of Supervisory Directors, the Presidial and Nomination Committee, and the Remuneration Committee each met three times in 2016 for this purpose; the Risk and Credit Committee seven times and the Audit Committee twice.

At the meetings the Executive Board informed the Board of Supervisory Directors of:

- KfW's 2015 annual and consolidated financial statements,
- the business activities and current developments in each of KfW's business sectors, including KfW IPEX-Bank and DEG,
- the group's net assets, earnings position and risk situation in general, particularly sensitive areas such as the ship portfolio, as well as any potential impacts of the UK's exit from the EU, the attempted coup in Turkey and the decline in the oil price,
- the significance of digitalisation for KfW and its activities to harness the arising opportunities,
- the status of banking supervision, current consultation with the banking supervisory authorities on implementing the requirements related to application of the KWG standards, particularly those on compliance with regulatory capital requirements, audits completed and ongoing as well as potential effects of future regulatory changes,
- the current status of the major project portfolio, particularly concerning the progress in renewing the financial architecture (including the "SAPFin project"),
- the development of Administrative expense,
- KfW's European commitment with the contribution to the EU Investment Plan, while continuing its proven cooperation with European promotional banks,
- business and risk strategies, the group IT strategy, and KfW IT strategy for 2017.

The Board of Supervisory Directors approved the amendment to the procedural rules for the Executive Board, as resolved by the Executive Board, concerning the explicit acceptance of the option for Executive Board members to vote in absentia.

In the reports on the activities of the individual business sectors, the primary focus was on the following developments:

- With regard to **domestic promotional business**, the Executive Board reported in detail on the reorientation of equity finance in venture capital, the commitment in environmental

and climate protection, the emergency “refugee accommodation” programme, the efforts to create affordable housing and continued development of innovation promotion relating to digitalisation.

- With regard to the business sector “**Promotion of developing countries and emerging economies**”, the Executive Board reported on key topics of Financial Cooperation, the significant increase in budget funds for German development financing with the focus on crisis and refugee aid, the initiatives relating to climate protection and urbanisation, as well as DEG’s business orientation and results.
- As for KfW IPEX-Bank GmbH, i.e. the **Export and project finance** business sector, the focus was on the support the bank provides to German and European investors and exporters. The Executive Board also presented information on the strategic focus and business results of KfW IPEX-Bank GmbH.
- The Executive Board gave regular reports on capital market development and KfW’s funding status. 2016 saw further expansion in KfW’s green bond activities, enabling KfW to gain new investors and contribute to the development of the green bond market.
- The Board of Supervisory Directors was also informed of KfW Group’s environmental and sustainability commitment.

The Board of Supervisory Directors was informed at the meetings as well as quarterly, in writing, of the group’s net assets, earnings position and risk situation, the development of its promotional business, and Internal Auditing’s activity.

The Executive Board informed the Board of Supervisory Directors about the focus areas of the business strategy – particularly in the fields of climate change and the environment, globalisation, innovation and SMEs – including KfW’s activities in Europe. The Board of Supervisory Directors approved the planning for 2017, and acknowledged the multi-year business strategy, the risk strategy and the IT strategies for the group and the individual group companies.

Each member of the Board of Supervisory Directors is obliged to inform the Chairman of the Board of Supervisory Directors or the relevant committee about potential conflicts of interest before a resolution is made. Consequently, on some occasions during the reporting year, members of the Risk and Credit Committee abstained from voting or refrained from participating in resolutions.

Eight members of the Board of Supervisory Directors attended fewer than half of the board meetings in the reporting year. Two members attended fewer than half of the meetings of the

Presidial and Nomination Committee. The same applies to the Remuneration Committee and the Audit Committee. Two members attended fewer than half of the meetings of the Risk and Credit Committee.

KfW has organised training events for the members of the Board of Supervisory Directors to gain and maintain expertise in accordance with the KWG since 2015. A total of four training events, two project visits and four individual training sessions were held for members of the Board of Supervisory Directors in 2016, as well as a first-time training course for their employees.

Committees of the Board of Supervisory Directors

In exercising its responsibilities prescribed in the Bylaws, the **Presidial and Nomination Committee** discussed Executive Board matters and resolved an adjustment to Executive Board salaries. It was also informed of banking supervision status and about KfW Stiftung. The committee also discussed the issue of D&O insurance excess. It discussed the status of major projects with the Executive Board. The committee also adopted a resolution on tax consolidation for income tax purposes between KfW IPEX-Bank GmbH and KfW-Beteiligungsholding GmbH. It conducted an evaluation of KfW bodies, offering relevant recommendations to the Board of Supervisory Directors. Moreover, the Executive Board reported on legal disputes and construction projects.

The **Risk and Credit Committee** reviewed the commitments, equity investments, and loans to members of senior management that must be presented to it under the KfW Law and KfW Bylaws as well as the scope of funding required by KfW for its refinancing and the related swap transactions necessary for hedging, and was informed about the risk situation and the effectiveness of the risk management system. It also dealt with KfW’s exposure in certain countries such as Turkey, the effects of the decline in the oil price and the low-interest environment, potential consequences of Brexit, potential effects of regulatory measures currently under discussion and the risk profile of the business sector Export and project finance. The results of Bundesbank assessments, the talks with the German Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht* – “BaFin”) and the regulatory capital requirements on KfW were also reported and discussed. And lastly, the committee discussed initial risk-relevant results of the 2016 annual audit.

The **Audit Committee** addressed the accounting process, KfW’s net assets and earnings position, the quarterly reports, the reports by Internal Auditing and Compliance and the annual financial statements of KfW Group 2015. It made corresponding

recommendations to the Board of Supervisory Directors for the approval of the annual financial statements 2015 and the appointment of the auditor for 2016 and 2017. It was informed about the efficiency of the risk management system, the Internal Control System (ICS) and the internal audit system. In addition, it addressed auditor independence and certain focal points of the 2016 annual audit and discussed the initial results of the 2016 annual audit in detail (audit report part I). The Committee approved the audit plan of the Internal Auditing department for 2017. It was informed about the status of the application of KWG provisions at KfW, the Bundesbank's assessments, and major projects underway. With regard to the development of costs and earnings, the development of administrative costs was discussed as were measures to improve KfW's IT structure.

The **Remuneration Committee** discussed remuneration issues and was informed among other matters about the remuneration system for KfW employees, the future scope of application of the German Remuneration Ordinance for Institutions (*Institutsvergütungsverordnung – "InstitutsVergV"*) at KfW, the timeframe for its implementation and the future role or expanded responsibilities of the committee. It also listened to the address given by the remuneration officer and deputy proposed by the Executive Board.

The committee chairpersons reported to the Board of Supervisory Directors regularly on the work of the committees.

Changes on the boards

Dr Norbert Kloppenburg was reappointed to the KfW Executive Board with effect from 1 January 2017 until 31 October 2017. Prof. Dr Joachim Nagel joined KfW as Dr Kloppenburg's future successor. He initially assumed the position of Managing Director with effect from 1 November 2016.

In accordance with Article 7 (1) no. 1 of the KfW Law, in my capacity as Federal Minister of Finance, I assumed the position of Chairman of the Board of Supervisory Directors for 2017 from my colleague Sigmar Gabriel, Federal Minister for Economic Affairs and Energy.

New members of the Board of Supervisory Directors in 2016 were Dr Uwe Brandl, Christian Görke, Monika Heinold and Prof. Dr Georg Unland. Jan Bettink, Dr Nils Schmid, Dr Markus Söder and Dr Kai H. Warnecke stepped down from the Board of Supervisory Directors in 2016. Gerhard Hofmann, Bartholomäus Kalb, Eckhardt Rehberg, Joachim Rukwied, Carsten Schneider, Peter-Jürgen Schneider and Dr Norbert Walter-Borjans stepped down with effect from 31 December 2016 and were reappointed according to schedule with effect from 1 January 2017.

Volker Bouffier, Dr Louis Hagen, Andreas Ibel and Edith Sitzmann joined the Board of Supervisory Directors after the reporting period on 1 January 2017. Dr Frank-Walter Steinmeier stepped down from the Board of Supervisory Directors effective 27 January 2017, and Brigitte Zypries joined with effect from the same date. The Board of Supervisory Directors would like to thank the members stepping down in 2016 and 2017 for their work.

Annual financial statements

KPMG AG, which was appointed auditor for the 2016 financial year, has audited the annual financial statements and the management report of KfW as well as the consolidated financial statements and the group management report of KfW Group, all of which were prepared as of 31 December 2016 by the Executive Board, and issued an unqualified auditor's report thereon. The financial statements and the management report of KfW were prepared in accordance with the provisions of the German Commercial Code (HGB), and the consolidated financial statements and the group management report were prepared in accordance with International Financial Reporting Standards (IFRS) as applicable within the European Union.

At its meeting on 28 March 2017, the Board of Supervisory Directors approved the financial statements and the consolidated financial statements, both of which were prepared by the Executive Board, as stipulated in Article 9 (2) of the KfW Law, following a recommendation by the Audit Committee.

Frankfurt am Main, 28 March 2017

THE BOARD OF SUPERVISORY DIRECTORS

Chairman