

Report of the Board of Supervisory Directors



Olaf Scholz, 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 Audit Committee, the Presidial and Nomination Committee, and the Remuneration Committee each met three times for this purpose in 2018; the Risk and Credit Committee six times.

At the meetings, the Board of Supervisory Directors acknowledged the information provided by the Executive Board on

- KfW's 2017 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 political risks, as well as any potential impacts of the United Kingdom's exit from the EU,
- the significance of digitalisation for KfW and its activities to harness the arising opportunities,
- banking supervisory issues relating to KfW, current consultations with the banking supervisory authorities, on compliance with regulatory capital requirements, audits completed and ongoing, the resulting measures, as well as potential effects of future regulatory changes,
- the current status of the major project portfolio, the modernisation and reorientation of the IT landscape as well as of Internal Auditing,
- commencement of the operating activities of the subsidiary KfW Capital to expand venture capital and equity financing,
- business and risk strategies, the group IT strategy, and KfW's IT strategy for 2019.

In addition, the Board of Supervisory Directors addressed the following key issues at its meetings based on the reports submitted by the Executive Board on the individual business sectors:

- As regards **domestic promotional business**, the Board of Supervisory Directors discussed the positive impact of promotion, innovation promotion relating to digitalisation, the launch of new products such as the "Baukindergeld" scheme, the reorganisation of the promotional sector, and the specifics of expanding equity finance.
- With a view to the business sector **Promotion of developing countries and emerging economies**, the Board of Supervisory Directors discussed key issues of Financial Cooperation as well as DEG's business orientation and results. In particular, the commitment in Africa shall be expanded.

- 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 Board of Supervisory Directors received regular reports on capital market development and KfW's funding status. KfW's activities on the green bond market make a key contribution to the development of the "sustainable finance" market segment.
- The Board of Supervisory Directors also monitored KfW Group's environmental and sustainability commitment and was informed about the sustainable finance roadmap, which KfW follows in developing a stringent, multi-dimensional sustainability concept.

The Board of Supervisory Directors was informed at the meetings as well as, in writing, quarterly 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 also kept the Chair of the Board of Supervisory Directors/his deputy informed of key developments at the bank between meetings.

The Board of Supervisory Directors discussed key aspects of the business strategy and approved the planning for 2019. It 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 Chair 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.

Seven members of the Board of Supervisory Directors attended fewer than half of the board meetings in the reporting year. One member attended fewer than half of the meetings of the Presidial and Nomination Committee. The same applies to the Remuneration Committee. Three members attended fewer than half of the Audit Committee meetings and four members fewer than half of the Risk and Credit Committee meetings.

Members of the Board of Supervisory Directors attended six training events and four individual training sessions in 2018 to gain and maintain the expertise required in accordance with the KWG. Two training sessions were also conducted for employees of Supervisory Board members.

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 made a recommendation to the Board of Supervisory Directors on the reappointment of Bernd Loewen. It resolved on details of the basic business policy strategy underlying KfW's strategic guidelines for 2019. The committee also acknowledged a temporary redistribution of Executive Board

responsibilities resulting from Dr Bräunig's appointment as Chief Executive Officer until a sixth member responsible for information technology and transaction management is added to complete the Executive Board. It was also informed about banking supervisory issues, KfW Stiftung and legal disputes. It conducted an evaluation of the KfW bodies, making relevant recommendations to the Board of Supervisory Directors. Moreover, it received information about construction projects and adopted a resolution in this regard.

The **Remuneration Committee** discussed compensation issues and the implementation of the Remuneration Regulation for Institutions (*Institutsvergütungsverordnung – "IVV"*) and resolved the annual cycle for preparing a remuneration report. It was informed, among other matters, about the remuneration system and the newly planned pension scheme for KfW employees, as well as the risk analysis to identify risk takers. As part of this risk analysis, KfW, both as an individual institution and at group level, has to identify staff members whose work could have a material impact on the risk profile of the institution/the group. The group-wide remuneration strategy and the assessment base for variable remuneration 2018 and 2019 were also discussed.

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 borrowings required by KfW for its funding, and the related swap transactions necessary for hedging, and addressed the risk situation and the effectiveness of the risk management system. It also dealt with KfW's exposure in different countries and regions, the development and assessment of political risks, including the United Kingdom's exit from the EU, measures to further develop the risk culture, details of market price risks and their management, KfW funding in local currencies, the 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, along with the resulting measures and projects, the talks with the German Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht – "BaFin"*) and the regulatory capital requirements to KfW were also discussed. And lastly, the committee discussed the risk strategy, including capital planning for the next few financial years.

The **Audit Committee** addressed the accounting process, KfW's net assets, financial position and earnings position, the reports by Internal Auditing and Compliance and the annual financial statements of KfW Group 2017. It made corresponding recommendations to the Board of Supervisory Directors for the approval of the annual financial statements 2017 and the appointment of the auditor for 2019. Based on information supplied by the Executive Board, it evaluated 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 2018 annual audit and discussed the initial results of the 2018 annual audit in detail (audit report part I). The committee approved the audit

plan of the Internal Auditing department for 2019. It monitored the ongoing major projects, as well as banking supervisory issues and reviewed in detail the Bundesbank assessments, along with the resulting measures and projects. In particular, the committee dealt with the results of the supervisory assessment of Internal Auditing as well as with the measures taken to remedy findings of the Internal Auditing reorientation project. The committee also intensively discussed the implementation of the action plan KfW developed together with an auditor to optimise KfW's IT and payment transaction systems.

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

Changes on the boards

During the reporting period, the Board of Supervisory Directors reappointed Bernd Loewen to the Executive Board with effect from 1 July 2019. Melanie Kehr joined KfW as Managing Director with effect from 1 September 2018 and was appointed to the Executive Board after the reporting period, with effect from 1 March 2019. She is responsible for information technology and transaction management.

Dr Schröder, who at his own request stepped down from KfW Executive Board with effect from 31 December 2017, died on 25 March 2018 at the age of 66 following a serious illness.

Dr Schröder always applied a great deal of energy, discipline and care in his work for the good of KfW. The Board of Supervisory Directors is grateful for his almost nine years of commitment as Chief Executive Officer.

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 Chair of the Board of Supervisory Directors for 2019 from my colleague Peter Altmaier, Federal Minister for Economic Affairs and Energy.

New members of the Board of Supervisory Directors with effect from 1 January 2018 are Dr Hans-Walter Peters, Dr Johannes-Jörg Riegler and Helmut Schleweis; Reinhold Hilbers with effect from 2 February 2018; Dr Bruno Hollnagel and Dr Florian Toncar with effect from 1 March 2018; Dr Matthias Hass with effect from 2 March 2018; Julia Klöckner, Heiko Maas, Andreas Scheuer, Olaf Scholz and Svenja Schulze with effect from 14 March 2018; and Sören Bartol with effect from 26 April 2018. Dr Uwe Brandl, Frank Bsirske, Klaus-Peter Flosbach, Sigmar Gabriel, Christian Görke, Dr Matthias Hass, Hubertus Heil, Monika Heinold, Dr Barbara Hendricks, Christian Schmidt and Brigitte Zypries stepped down from the Board of Supervisory Directors in 2018. The Board of Supervisory Directors would like to thank the members stepping down in 2018 for their work.

Sören Bartol, Dr Holger Bingmann, Holger Schwannecke and Dr Martin Wansleben stepped down with effect from 31 December 2018 and were reappointed according to schedule with effect from 1 January 2019. Doris Ahnen, Verena Göppert, Olav Gutting, Andrea Kocsis, Peter Strobel and Heike Taubert joined

the Board of Supervisory Directors after the reporting period with effect from 1 January 2019.

Annual financial statements

Ernst & Young GmbH, which was appointed auditor for the 2018 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 2018 by the Executive Board, and issued an unqualified auditor's report thereon. The financial statements and the management report 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 8 April 2019, 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, 8 April 2019

THE BOARD OF SUPERVISORY DIRECTORS



Chair