

# Corporate Governance Report

As the promotional bank of the Federal Republic of Germany, KfW has committed itself to making responsible and transparent action comprehensible. The Executive Board and the Board of Supervisory Directors of KfW recognise the Public Corporate Governance Code (Public Corporate Governance Kodex – “PCGK”) of the Federal Republic of Germany. A declaration of compliance with the recommendations of the PCGK was issued for the first time on 6 April 2011. Since then any potential deviations are disclosed and explained on an annual basis.

KfW is a public law institution under the Law Concerning KfW (KfW Law). The Law sets out KfW’s main structural features. For example, KfW does not have a general shareholders’ meeting. The shareholders are represented on the Board of Supervisory Directors of KfW and exercise control and shareholder functions (e.g. approval of the financial statements and adopting resolutions concerning the KfW Bylaws). The number of members, composition and duties of the Board of Supervisory Directors are set out in the KfW Law. The KfW Law also provides that the Board of Supervisory Directors is subject to legal supervision by the Federal Ministry of Finance in consultation with the Federal Ministry for Economic Affairs and Energy as well as direct control of the Federal Audit Office (*Bundesrechnungshof*). The KfW Law in conjunction with the Regulation concerning key banking supervision standards under the German Banking Act (*Gesetz über das Kreditwesen – “KWG”*) to be declared applicable by analogy to KfW and supervision of compliance to these standards to be assigned to the German Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht – “BaFin”*) (*KfW Regulation*), dated 20 September 2013, further stipulates that KfW is subject to supervision by BaFin in collaboration with the Bundesbank.

## Declaration of compliance

The Executive Board and Board of Supervisory Directors of KfW hereby declare: “Since the last declaration of compliance issued on 11 April 2018, the recommendations of the PCGK, as adopted by the Federal Government on 1 July 2009, were and will be fulfilled to the extent applicable to KfW as a public law institution with the exception of the following recommendations.”

## D&O insurance excess

KfW has taken out D&O insurance for members of the Board of Supervisory Directors, which – in derogation of clause 3.3.2 of the PCGK – only contains the option of including a policy excess. Exercise of the option is decided on in consultation with the Chair of the Board of Supervisory Directors and his or her deputy.

## Delegation to committees

The KfW Law sets out the size of the Board of Supervisory Directors at 37 members. To ease the work of the Board of Supervisory Directors, committees more specialised in the subject matter and flexible in terms of time are in place, whose establishment is prescribed by law. In some cases, the committees not only prepare the decisions of the Board of Supervisory Directors but also – in derogation of clause 5.1.8 of the PCGK – make final decisions. This is done for reasons of practicality and efficiency.

- The **Presidial and Nomination Committee** takes final decisions in the following cases: It adopts measures dealing with important legal and administrative matters and can make urgent decisions in pressing matters. It also draws up job descriptions with candidate profiles for Executive Board positions and for appointments to the Board of Supervisory Directors. It grants approval for the distribution of responsibilities within the Executive Board and significant changes thereto, resolves the compensation system for the Executive Board, with the decision on the basic structure of the compensation system nonetheless remaining the responsibility of the Board of Supervisory Directors. In derogation of clause 4.4.3 of the PCGK, the Chair of the Presidial and Nomination Committee also accepts information on Executive Board member conflicts of interest, in lieu of the Board of Supervisory Directors. The Chair of the Presidial and Nomination Committee approves secondary employment of Executive Board members instead of the Chair of the Board of Supervisory Directors, in derogation of clause 4.4.4 of the PCGK.
- The **Risk and Credit Committee** takes final decisions on all financing requiring approval pursuant to the KfW Bylaws as well as on funding through the issue of bonds or taking out loans in foreign currencies and via swap transactions. It is standard procedure at banks for the final decision in such matters to be taken by a committee. It serves to accelerate and bundle committee expertise.

## Loans to board members

Pursuant to its bylaws, KfW may not grant individual loans to members of the Executive Board or Board of Supervisory Directors. For equal treatment reasons, this does not apply – in derogation of clause 3.4 of the PCGK – to utilisation of promotional loans made available under the KfW programmes. Due to standardisation of lending and the principle of onlending through applicants’ own banks, there is no danger of conflicts of interests concerning programme loans. The Board of Supervisory Directors must, however, be informed of programme loans

granted to members of the Executive Board and Board of Supervisory Directors.

### Cooperation between Executive Board and Board of Supervisory Directors

The Executive Board and Board of Supervisory Directors work closely together for the benefit of KfW. The Executive Board maintains regular contact with the Chair and Deputy Chair of the Board of Supervisory Directors and discusses important issues concerning the management of the bank and strategy with them. The Chair of the Board of Supervisory Directors informs the Board of Supervisory Directors of serious issues and, if necessary, convenes an extraordinary meeting.

During the reporting year, the Executive Board informed the Board of Supervisory Directors about all relevant matters regarding the bank's planning, results of operations, risk situation, strategy and management, IT strategy, compensation strategy and financial position.

### Executive Board

The Executive Board is responsible for managing the activities of KfW pursuant to the KfW Law, the KfW Regulation, the KfW Bylaws and the procedural rules for the Executive Board. A schedule of responsibilities stipulates business responsibilities within the Executive Board. As of 1 August 2014, the Executive Board requires prior approval of the Presidial and Nomination Committee regarding significant changes to responsibility within the Executive Board.

The KfW Executive Board member department responsibilities were as follows in the reporting year:

- Dr Günther Bräunig – Chief Executive Officer, General Secretariat, Group Development and Economics, Legal, Financial Markets, Human Resources, Internal Auditing and also Sustainability;
- Prof. Dr Joachim Nagel – International Finance, including KfW Development Bank, DEG, and KfW IPEX Bank GmbH;
- Bernd Loewen – Accounting, Information Technology, and Organisation and Consulting;
- Dr Ingrid Hengster – Domestic Finance, including the Individualfinanzierung & Öffentliche Kunden (*Customised Finance & Public Clients*) and Mittelstandsbank & Privatkunden (*SME Bank & Private Clients*) business sectors newly structured as of 1 April 2018, New Business Credit Service, Domestic Marketing and Digital Channels, KfW Capital GmbH & Co. KG (since October 2018), and Central Services;

- Dr Stefan Peiß – Chief Risk Officer/Head of Risk Controlling, Credit Risk Management, Transaction Management, Compliance and Portfolio Credit Service.

After Dr Ulrich Schröder stepped down with effect from 31 December 2017, the Executive Board adjusted the distribution of responsibilities resolved by the Presidial and Nomination Committee resulting in the temporary distribution of responsibilities outlined above and informed the Presidial and Nomination Committee.

Melanie Kehr joined KfW Group as new Managing Director with effect from 1 September 2018. After having completed the qualification period as managing director, she is due to join the Executive Board, which will also cause a redistribution of responsibilities on the Executive Board.

The Board of Supervisory Directors reappointed Bernd Loewen to the Executive Board for an additional five years from 1 July 2019 to 30 June 2024, in a written procedure in July 2018.

Executive Board members are obliged to act in the best interests of KfW, may not consider personal interests in their decisions, and are subject to a comprehensive non-competition clause during their employment with KfW. Executive Board members must inform their Board colleagues of any conflicts of interests prior to adopting resolutions and disclose them to the Chair of the Presidial and Nomination Committee without delay.

### Board of Supervisory Directors

The Board of Supervisory Directors supervises and advises the Executive Board in the management of the bank.

In accordance with the KfW Law, the Board of Supervisory Directors consists of 37 members. In accordance with the law, seven Federal Ministers are members of the Board of Supervisory Directors. In addition, the German Bundestag and Bundesrat appoint seven members each. The remaining members of the Board of Supervisory Directors are appointed by the Federal Government after consultation with stakeholder groups. The Federal Minister of Finance and the Federal Minister for Economic Affairs and Energy alternate on a yearly basis as Chair of the Board of Supervisory Directors. The Chairs of the Board of Supervisory Directors in the reporting year were Federal Minister Brigitte Zypries (until 14 March 2018) and Federal Minister Peter Altmaier (from 14 March 2018). There were six female members on the Board of Supervisory Directors during the reporting year (two of them from 1 January 2018 to 14 March 2018, and two of them from 14 March 2018 to 31 December 2018).

No member of the Board of Supervisory Directors may have business or private dealings with KfW or its Executive Board members which are based on a substantial and more than temporary conflict of interests. Each member of the Board of Supervisory Directors informs the Chair of the Board of Supervisory Directors or the relevant committee about conflicts of interest before a resolution is adopted. There were occasions during the reporting year when members of the Board of Supervisory Directors and its committees refrained from participating in resolutions due to conflicts of interest.

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

### Committees of the Board of Supervisory Directors

The Board of Supervisory Directors has created four committees in accordance with Section 25d KWG in order to increase efficiency in performance of its duties. The committees are listed below.

The **Presidial and Nomination Committee** is responsible for all legal and administrative matters, as well as the bank's business and corporate policy matters; it also makes urgent decisions in pressing matters. The Presidial and Nomination Committee is also responsible for handling nominations. The Presidial and Nomination Committee's tasks include advising and adopting resolutions on the compensation system for the Executive Board, including in respect of contract components and their regular review, notwithstanding the tasks of the Remuneration Committee. The Board of Supervisory Directors decides on the basic structure of the Executive Board compensation system. The Presidial and Nomination Committee draws up job descriptions with candidate profiles for Executive Board positions and for appointments to the Board of Supervisory Directors. It identifies candidates to fill positions on the Executive Board and thus ensures with the Executive Board that long-term succession planning is in place for it. It can support the government bodies which make the appointments in selecting the individuals to be appointed to the Board of Supervisory Directors.

The **Remuneration Committee** deals with remuneration matters. It deals in particular with the appropriate structure of the compensation system for the KfW Executive Board and employees and advises the Presidial and Nomination Committee on remuneration of the Executive Board members.

The **Risk and Credit Committee** is responsible for advising the Board of Supervisory Directors on risk issues, such as, in particular, the group's overall risk tolerance and strategy. The Risk and Credit Committee is also in charge of handling credit matters and the approval of KfW's fundraising and swap transactions.

The **Audit Committee** is responsible for accounting and risk management issues. In particular, it deals with monitoring the accounting process, the effectiveness of the internal controlling system, the internal audit system and risk management system, auditing the annual and consolidated financial statements, the required independence of the auditor, determining the focus

areas of the audit, and monitoring the prompt elimination by the Executive Board of any deficiencies found by the auditor.

The chairs of the committees report to the Board of Supervisory Directors on a regular basis.

The Board of Supervisory Directors provides information about its work and that of its committees during the reporting year in its report. An overview of the members of the Board of Supervisory Directors and its committees is available on KfW's website.

### Shareholders

The Federal Government owns 80% of KfW's share capital, the German federal states 20%. In accordance with Article 1a of the KfW Law, the Federal Republic of Germany is liable for certain of KfW's liabilities. There is no profit distribution. The KfW Law does not require a general shareholders' meeting; the Board of Supervisory Directors performs the function of a general shareholders' meeting.

### Supervision

In accordance with Article 12 of the KfW Law, KfW is subject to legal supervision by the Federal Ministry of Finance in consultation with the Federal Ministry for Economic Affairs and Energy. The supervising authority has the power to take all measures necessary to ensure that KfW operates its business activities in accordance with the law, the KfW Bylaws and other rules and regulations.

KfW is not considered a credit institution within the meaning of Section 2 (1) no. 2 KWG and is thus generally exempt from direct application of banking supervision regulations with the exception of a few individual provisions.

However, the KfW Regulation dated 20 September 2013 declares central banking supervision regulations henceforth applicable by analogy to KfW, and subjects KfW to supervision by the German Federal Financial Supervisory Authority (BaFin) in collaboration with the Bundesbank regarding KfW's compliance with these regulations.

The group companies KfW IPEX-Bank GmbH and DEG – Deutsche Investitions- und Entwicklungsgesellschaft mbH (DEG) are, on the other hand, credit institutions within the meaning of the KWG. KfW IPEX-Bank GmbH is subject to the provisions of the KWG in full, while DEG is only subject to it with certain restrictions.

### Transparency

KfW provides all important information about the bank's annual and consolidated financial statements, the quarterly and semi-annual reports and the financial calendar on its website. Investor relations activities and corporate communications also involve regular announcements on the latest company developments. The annual corporate governance reports of KfW and the group companies KfW IPEX-Bank GmbH, KfW Capital GmbH & Co. KG and DEG including the declaration of compliance with the PCGK are always available on KfW's website.

## **Risk Management**

Risk management and risk control are primary responsibilities of overall bank management at KfW. In its risk strategy the Executive Board defines the framework for the bank's business activities regarding risk tolerance and risk-bearing capacity. This ensures that KfW fulfils its particular responsibilities with an appropriate risk profile effectively and for the long term. The bank's overall risk situation is subject to comprehensive analysis in monthly risk reports to the Executive Board. The Board of Supervisory Directors regularly receives detailed information on the bank's risk situation at least once a quarter.

## **Compliance**

The success of KfW Group is largely based on the confidence its shareholders, customers, business partners, employees and the general public place in its efficiency and above all in its integrity. This confidence rests to a large extent on the implementation of and compliance with relevant statutory, supervisory and internal regulations and other relevant laws and rules. Compliance at KfW includes, in particular, measures for data protection and securities compliance, and for financial sanctions, as well as for the prevention of money laundering, terrorist financing and other criminal activities and to achieve adequate information security. There are therefore binding rules and procedures that influence the day-to-day implementation of values and the corporate culture, which are continually updated to reflect current law as well as market requirements. Compliance's responsibilities also include collaboration with financial regulators BaFin and Bundesbank as well as the central function for compliance in accordance with MaRisk. Regular training sessions on all compliance issues are held for KfW's employees. E-learning programmes are available in addition to classroom seminars.

## **Accounting and auditing**

As the supervisory authority, the Federal Ministry of Finance in consultation with the Federal Audit Office appointed Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft as auditor for financial year 2018 on 2 February 2018. The appointment was based on the proposal made by KfW's Board of Supervisory Directors on 7 December 2017. The Audit Committee prepared this recommendation. The bank and the auditor agreed that the Chair of the Audit Committee would be informed without delay of any findings and incidents discovered during the audit that are significant to the duties of the Board of Supervisory Directors. It was furthermore agreed that the auditor would inform the Audit Committee Chair or remark in the auditor's report if it noticed any facts in performing the audit that represent mis-statements in the Declaration of Compliance with the PCGK.

## **Efficiency review of the Board of Supervisory Directors**

Since Section 25d (11) KWG became applicable as of 1 July 2014, the Presidial and Nomination Committee has been required to evaluate the efficiency of both the Board of Supervisory Directors and the Executive Board on an annual basis. Both evaluations are performed on a yearly basis, for the first time in mid-2015 and most recently in June 2018.

## **Remuneration Report**

The remuneration report describes the basic structure of the remuneration plan for members of the Executive Board and Board of Supervisory Directors; it also discloses their remuneration on an individual basis. The remuneration report is an integral part of the notes to the consolidated financial statements.

Frankfurt am Main, 8 April 2019

**The Executive Board**

**The Board of Supervisory Directors**