

»» WHAT WE DO.

FACTS AND FIGURES 2012

Sustainability Report 2012

A sense of responsibility shapes KfW's business and actions. Our products support economic, environmental and social change both in Germany and around the world.

Dr Ulrich Schröder

About this report

KfW Bankengruppe began producing regular reports on environmental performance in 1995 and has been reporting on its social responsibility since 2006. To this end, it publishes a Sustainability Report every three years, most recently in 2009.

The Sustainability Report 2012 is divided into two parts in order to address our stakeholders' various needs and expectations. The first part "Our responsibility. Shaping social challenges" describes KfW Bankengruppe's business activities and how it contributes to sustainable global development while taking into consideration the key challenges of our time. The second part of the report "What we do. Facts and figures 2012" presents in-house processes and key sustainability figures related to our business activities. We also set out our sustainability targets for 2012 to 2014.

All KfW Group reporting complies with the Global Reporting Initiative Guidelines (GRI G3) including the Financial Services Sector Supplement. This is the first report to comply with the top applicable level, GRI A+, while also meeting the requirements of the German Sustainability Code. You can find an overview of the GRI indicators covered on pages 40-42.

Reporting period and content

The key figures presented in the report refer to the 2009, 2010 and 2011 financial years. The report covers KfW Bankengruppe in its entirety: KfW, KfW IPEX-Bank GmbH and DEG (Deutsche Investitions- und Entwicklungsgesellschaft mbH). Where information pertains to only part of the Group, this has been clearly indicated. As no material organisational changes occurred during the reporting period, all data is comparable with the previous Sustainability Report.

Independent assurance report

The two parts of the KfW Sustainability Report 2012, "Our responsibility. Shaping social challenges" and "What we do. Facts and figures 2012", have been reviewed by PricewaterhouseCoopers AG. The assurance report can be found on pages 38 and 39.

Editorial notes

The deadline for inclusion in this report was 31 July 2012. We have also reported significant events up to and including 2 October 2012. In the interest of clarity, in some cases male pronouns have been used to refer to both men and women.

Additional information

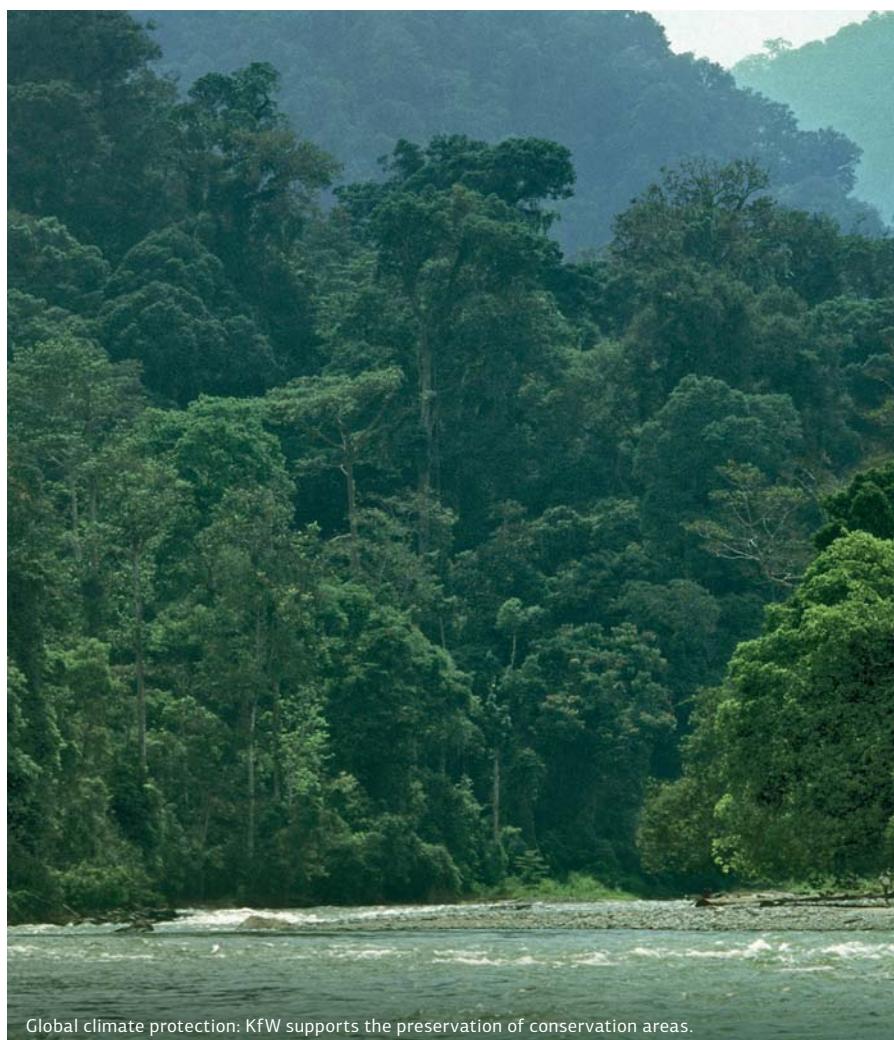
For more information about sustainability, please visit our website at www.kfw.de/sustainability. The website contains news about current sustainability developments within the KfW Group.

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Sustainability as a business target

Through its promotional and financing activities, KfW Bankengruppe seeks to achieve sustainable improvements in economic, social and environmental conditions. In order to achieve these objectives in an optimal way, the Group applies a strategic focus process to all core business, which entails adjusting the promotional portfolio to more strongly reflect current thematic issues whilst also making ongoing improvements to the quality of promotional products.



Global climate protection: KfW supports the preservation of conservation areas.

Thematic focus

Since KfW's foundation in 1948 as a promotional bank of the German Federal Government and the federal states, the bank has supported change and advanced forward-looking ideas in accordance with its legal mandate. Within the scope of this mission, KfW Bankengruppe's activities address major challenges of our time. All activities are built around the megatrends – climate change, globalisation and demographic change – in tandem with fundamental promotional themes such

as reducing poverty, general corporate finance (emphasis on SMEs) and start-up finance. Generally, promotional programmes are developed in close consultation with the German Federal Government. In certain cases, the Federal Government may instruct the bank to execute transactions that are of particular interest to the Federal Republic of Germany.

>>> EUR 22.8 billion
in funding for climate and environmental protection was committed by KfW Bankengruppe in 2011.

The focal point "Climate change and the environment" is of core importance for the Group's promotional activities (see chart on page 5). The amount of finance dedicated to this area rose consistently throughout the reporting period. In 2011, commitments in this field totalled EUR 22.8 billion, or one third (32%) of all promotional funding of the bank (2009: 31%; 2010: 31%). In order to reflect the importance of this priority theme and consolidate past achievements for the long term, KfW aims to dedicate 33% of funding to environmental issues over the next years.

All business areas are involved in environmental and climate protection activities, reflecting the global nature of the challenges involved. In Germany, KfW is making a significant contribution to financing the energy turnaround. For example, in 2011, around 70% of onshore wind

energy capacity added in Germany received funding from KfW. Over 40% of all new build homes in Germany now meet one of the KfW Efficiency House standards. Globally, KfW Bankengruppe is one of the largest financiers of environmental and climate protection measures.

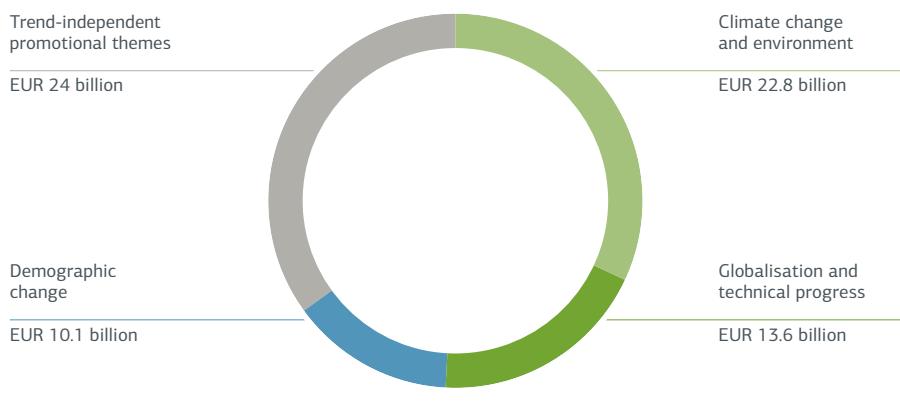
Under the heading of globalisation and technical progress, the Group finances activities such as the business activities of German and European companies abroad and also provides funding for infrastructure and mobility providers both in Germany and throughout the world. The thematic priority also covers securing Germany's supply of raw materials and financing research and innovation in Germany. The main thrust of its activities is focused on improving the competitive position of the German economy.

KfW is addressing demographic change in Germany through programmes such as those aimed at encouraging home ownership and age-appropriate home renovations, but also through student loans. The part on "Our responsibility" provides full details of KfW Bankengruppe's business activities in each of the four priority areas.

Improving the quality of promotional products

The second element in KfW Bankengruppe's strategic focus is the continuous improvement in the quality of promotional products. Large sections of our product portfolio are subject to ongoing evaluations based on standardised quality criteria. High-quality products are systematically enhanced, while lower quality products are gradually phased out. As a responsible promotional bank operating on a subsidiary basis, the quality of our business is a priority. ▶

Total commitment volume of KfW Bankengruppe in 2011, by priority theme¹⁾



¹⁾ Based on provisional figures; source: KfW Bankengruppe.

Breakdown of KfW Bankengruppe business activities by business area

Business area	EUR in billions	2009	2010	2011
Business area KfW Mittelstandsbank	23.9	28.6	22.4	
Promoting small and medium-sized enterprises (SMEs), business start-ups and other business clients in Germany				
- KfW Special Programme ¹⁾	7.2	6.2	0.7	
Business area KfW Privatkundenbank	16.1	20.0	16.7	
Housing programmes, environmental protection and education support for private clients in Germany				
Business area KfW Kommunalbank	9.4	15.4 ²⁾	11.8	
Financing programmes for public sector clients (municipalities, municipal enterprises and regional promotional banks)				
Capital market-related products and asset securitisation	1.5	2.5 ²⁾	1.1	
Loan securitisation and other capital market activities				
Business area Export and project finance (KfW IPEX-Bank)	8.9	9.3	13.4	
Tailored international export and project finance				
Promotion of developing and transition countries	4.5	5.7	5.8	
- Financial Cooperation (KfW Entwicklungsbank)	3.5	4.5	4.5	
- DEG	1.0	1.2	1.2	
Overall commitment volume of KfW Bankengruppe (consolidated)³⁾	63.9	81.4	70.4	

¹⁾ Including cancellations and waivers in the KfW Special Programme in the amount of EUR 165 million in 2011

²⁾ Adjustment of corresponding figures for 2010 due to change in product responsibility: "Business consultancy" was assigned to KfW Mittelstandsbank (EUR 0.1 billion) while "Global loans Europe" was assigned to Capital market-related products and asset securitisation (EUR 0.4 billion). The 2009 figures have not been adjusted retroactively.

³⁾ Adjustment for commitments made in export and project finance refinanced through KfW programme loans (2011: EUR 847 million; 2010: EUR 231 million). Excluding special business from the loan granted to Greece on behalf of the German Federal Government amounting to EUR 22.3 billion in 2010. Differences in the totals are due to rounding. Source: KfW Bankengruppe.

Development of business activities over the reporting period

In 2010, promotional measures were ramped up in response to the financial and economic crisis, and then reduced significantly in 2011. At EUR 70.4 billion (2010: EUR 81.4 billion; 2009: EUR 63.9 billion), the volume of promotional funding returned to the path of moderate long-term growth achieved in the pre-crisis years (see table on page 5).

In terms of domestic promotion, KfW made commitments totalling EUR 50.9 billion to enterprises, municipalities and private individuals in 2011 (2010: EUR 64.4 billion; 2009: EUR 49.4 billion). International business (KfW Entwicklungsbank, KfW IPEX-Bank and DEG) saw strong growth of 43.2% over the reporting period, with commitments coming in at EUR 19.2 billion for 2011 (2010: EUR 15 billion; 2009: EUR 13.4 billion).

Impact of promotion

The financings provided by KfW Bankengruppe contribute to protecting the climate, preserving biodiversity, boosting economic growth in emerging and devel-

Impact of KfW renewable energies programmes in Germany¹⁾

	2009	2010	2011 ²⁾
Commitment volume	EUR 5.3 billion	EUR 8.9 billion	EUR 6.3 billion
Investment mobilised	EUR 7.0 billion	EUR 11.0 billion	EUR 8.3 billion
Jobs created and secured (for one year)	41,000	52,000	56,800
Reductions in greenhouse gas emissions (CO ₂ equivalents per annum)	3.7 million t	4.8 million t	5.1 million t
Fossil fuel imports avoided (per annum)	EUR 310 million	EUR 350 million	EUR 430 million

¹⁾ Excluding projects financed in other countries; does not include KfW IPEX-Bank project finance in Germany

²⁾ For the purpose of comparability, the new KfW offshore wind energy programme introduced in 2011 has been omitted.

Source: Centre for Solar Energy and Hydrogen Research (ZSW), Baden-Württemberg, 2010 and 2011.

Impact of KfW's energy-efficient construction and refurbishment programmes

	2009	2010	2011
Commitment volume	EUR 9 billion	EUR 8.9 billion	EUR 6.6 billion ¹⁾
- Federal Government funds	EUR 2.04 billion	EUR 1.37 billion	EUR 0.93 billion
Investments financed	EUR 18.6 billion	EUR 21.5 billion	EUR 18.6 billion ^{1,2)}
Housing units financed	617,000	953,000	282,000
Reductions in greenhouse gas emissions (CO ₂ equivalents per annum)	1,212,000 t	1,039,000 t	576,800 t ³⁾
Jobs secured (for one year)	262,000	289,000	253,500

¹⁾ Investments and housing units promoted through global loans were included if the loans were committed and the investment figures were entered in the database. However, global loans were included in full in the commitments. As a result the commitment amounts may be higher than the recorded investments.

²⁾ In cases involving support under several programmes simultaneously figures are counted twice.

³⁾ Reduction in annual CO₂ emissions due to the measures supported during 2011

Source: KfW calculations using 2011 and 2012 figures from the Institute for Housing and Environment (IWH) and Bremen Energy Institute (BEI) (2011 only).



Energy-efficient buildings: housing construction offers huge potential for reducing CO₂ emissions.

oping countries, mobilising investment and creating jobs, both in Germany and abroad. The Group evaluates the impact of its financings, but the scope of evaluation and procedures used are different for each business area and subsidiary.

KfW assesses the impact of key domestic programmes in relation to various priority themes. For example, within the focal point climate change and environment KfW evaluates the renewable energy promotion programmes (see table above). In 2011, these programmes made commitments of about EUR 6.3 billion, which generated total investment of EUR 8.3 billion. In the year under review, around 36% of all investments for developing renewable energies in Germany were made in conjunction with funding from KfW. The facilities built in 2011 have reduced annual greenhouse gas emissions by around 5.1 million tonnes and reduced energy imports by EUR 430 million.

Breakdown of success rates by business area

KfW Entwicklungsbank – evaluation of projects completed in 2009–2010

Sector	Number	Funding (EUR in millions)	Success rate (%)
Social infrastructure	54	571.9	76.6
- Education	6	60.1	88.7
- Healthcare	10	37.6	66.0
- Population policy/programmes and reproductive health	7	32.4	100
- Water supply, sewage and waste management	25	379.5	69.9
- State and civil society	3	45.1	100
- Other social infrastructure and services	3	17.2	100
Economic infrastructure	28	545.8	88.6
- Transport and storage	13	315.3	91.9
- Communication	0	0	–
Energy generation and supply	15	230.5	84.0
Financial sector	28	195.2	88.3
- Banking and finance	27	192.6	88.2
- Trade and tourism	1	2.6	100
Production sector	11	118.6	34.1
- Agriculture, forestry and fisheries	11	118.6	34.1
- Industry, raw materials and mining, construction	0	0	–
Cross-sectoral/structural aid	18	93.9	80.2
Total*	139	1,525.4	79.3

* Any discrepancies in the totals are due to rounding. Source: KfW.

commitments totalling EUR 1.2 billion in developing and emerging countries, mobilising total corporate investments of around EUR 6.8 billion (see second table). An evaluation of commitments in 2011 found that the developmental quality of the projects financed had improved year-on-year, with an average rating of 2.4 (2010: 2.6).

»»» EUR 6.8 billion of investment mobilised by DEG financing in 2011.

Impact of DEG promotional activities 2009–2011

	2009	2010	2011
DEG commitment volume	EUR 1.0 billion	EUR 1.2 billion	EUR 1.2 billion
Total investment mobilised	EUR 4.6 billion	EUR 7.8 billion	EUR 6.8 billion
Development policy rating (DEG business policy rating)	2.4	2.6	2.4
Total jobs created and secured (estimated)	360,000	237,000	238,000
- of which: new jobs	15,000	11,000	18,000
Government revenue (per annum; estimated)	EUR 570 million	EUR 490 million	EUR 790 million
Net foreign exchange revenues (per annum; estimated)	EUR 1,700 million	EUR 2,700 million	EUR 690 million

Source: DEG.

Energy-efficient construction and refurbishment programmes for private individuals and municipalities were also evaluated under the heading of domestic promotion (see second table on page 6). KfW approved around EUR 6.6 billion in commitments in 2011, which in turn mobilised a total of around EUR 18.6 billion in investment. Construction activities undertaken in that same year are expected to reduce annual greenhouse gas emissions by approximately 576,800 tonnes.

The business area KfW Entwicklungsbank assesses the impact of its financing on the basis of random sector sam-

pling, a technique that covers around 50% of all projects. The actual development impact of these measures is calculated using the OECD Development Assistance Committee criteria. These criteria quantify relevance, effectiveness, overarching impact, efficiency and sustainability. The projects evaluated in 2009 and 2010 had a 79.3% success rate (see table). The evaluations are used for quality control purposes to learn from past experience and to further improve project measures.

The subsidiary DEG uses a standardised rating procedure to evaluate its entire promotion portfolio: in 2011 DEG made

Companies that received co-financing from DEG in 2011 created or secured an estimated 238,000 jobs. Of these, 108,000 were in the companies that received the co-financing and a further 130,000 were with suppliers of these companies and end borrowers in financial sector projects.

Companies that received DEG co-financing will generate an estimated EUR 790 million in annual tax revenues in the partner countries and post around EUR 690 million in net foreign exchange revenues. This income can be used to reduce national deficits, facilitate investment and boost foreign exchange revenues in the long term. ■

Organisation and agenda

KfW's core principles are based on the German Federal Government's sustainability targets. For the coming years, the bank has set itself ambitious targets designed to improve sustainability in its core business, investment activities and business processes. A sustainability management system will be used to implement these targets.

Core principles and statements

The German Federal Government's sustainability strategy defines objectives for generational equality, social cohesion, quality of life and global responsibility. Implementing these values is part of KfW's business activities based on the promotional mandate of the German Federal Government. In 2003, KfW Bankengruppe issued a "Statement on environmental protection and sustainable development" to the German Bundestag in which it undertook to work towards sustainable development (as defined in the Federal Government's sustainability strategy) in all environment-related decisions. Building on that statement, KfW introduced group-wide environmental and social principles in 2006, expanding these into sustainability guidelines in 2012. These constitute the basic frame of reference for implementing responsible financing and business processes.

In 1995, KfW Bankengruppe signed the United Nations Environment Programme (UNEP) Statement by Financial Institutions on the Environment and Sustainable Development. The bank also became a signatory in 2008 to the human rights declaration launched by the Business & Human Rights Resource Centre. KfW engages in discussions with international banks and works in close cooperation with other promotional

banks. KfW is a member of various associations, including the International Development Finance Club (IDFC), the Association of European Development Finance Institutions (EDFI) and the Association of German Public Banks (VÖB). KfW IPEX-Bank is a member of the Equator Principles Association.

**>>> In 1995
KfW Bankengruppe
signed the UNEP
Statement by Financial
Institutions on the
Environment and Sus-
tainable Development.**

Sustainability management system

The KfW Group's sustainability management system defines the organisational responsibilities and procedures for putting the sustainability guidelines into practice (see chart on page 9). The CEO of KfW Bankengruppe has overall responsibility for strategy and communication relating to sustainability. The Executive Board member in charge of environmental issues is responsible for coordinating and developing in-house environmental protection. This Board member is assisted by the Group Officer Environment and Sustainability, the in-house environmental protection officer, environment and sustainability officers from the relevant group units and four site officers for in-house environmental protection.

Compliance with the sustainability guidelines is monitored by the relevant competent members of the Executive

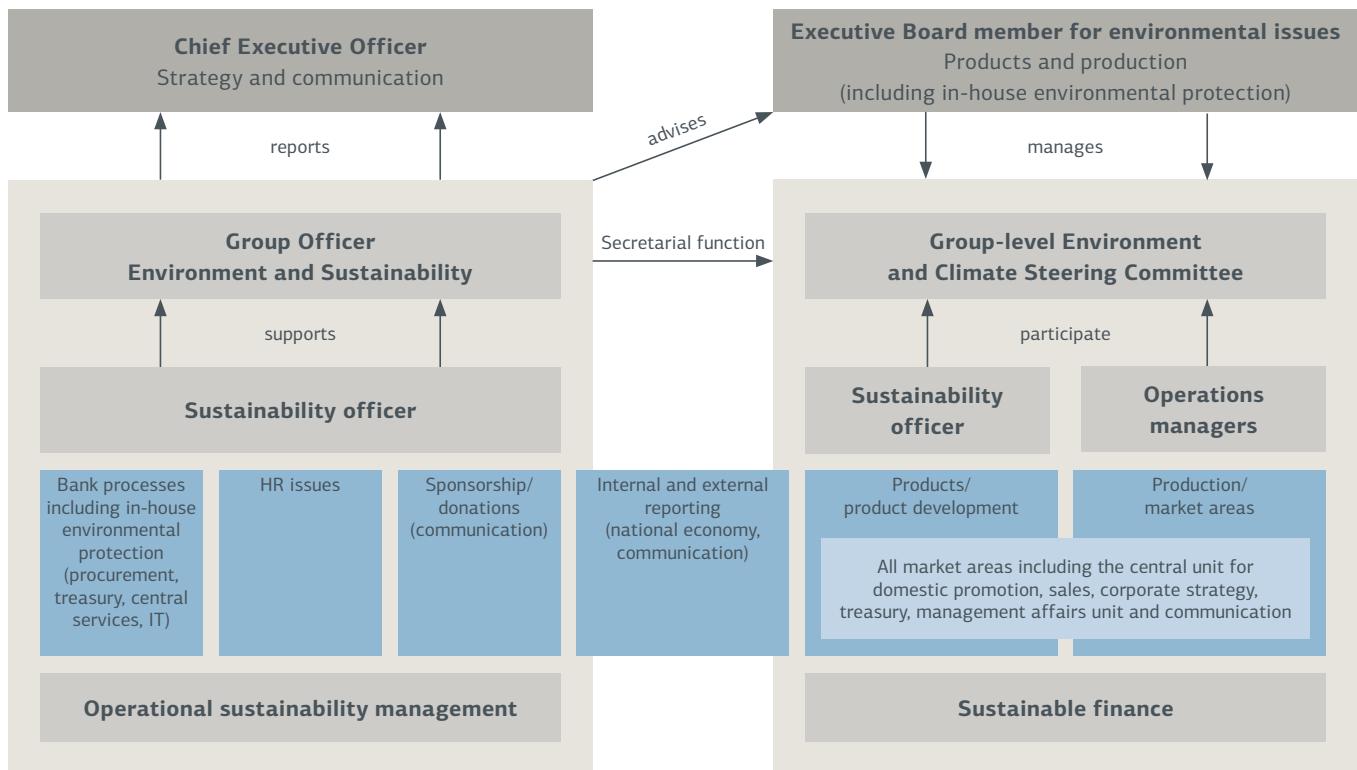
Board and the DEG and KfW IPEX-Bank management boards. The sustainability officer in each organisational unit is responsible for proposing amendments to the guidelines in order to address new challenges, in consultation with the Group Officer Environment and Sustainability. A group-level environment and climate steering committee has been set up to facilitate internal discussions, and to coordinate and initiate group activities in the field of environmental and climate protection. The steering committee is made up of all sustainability officers together with those responsible for defining and implementing sustainability considerations in all KfW Bankengruppe business areas, organisational units and subsidiaries. At operational sustainability management level, the working group on corporate ecology defines and reviews in-house environmental issues.

The provisions of the KfW sustainability guidelines pertaining to environmental and social impact assessments of co-financed projects are further specified through sustainability guidelines of the individual business areas, organisational units and subsidiaries in accordance with their specific circumstances and relevant regulatory setting. These guidelines comprise governing content and define responsibilities, procedures and standards; they are reviewed and updated regularly.

KfW Bankengruppe Sustainability Programme

The KfW Bankengruppe Sustainability Programme 2012-2014 encompasses all the targets linked to our sustainability commitments (see table on pages 10-11). The programme was drawn up by the Group's sustainability officers

KfW Bankengruppe sustainability management system



Source: KfW.

and the group-level environment and climate steering committee. The Sustainability Programme replaces the current Environmental Protection Programme (see table on page 12). Some projects have been discontinued in the new programme as they are no longer deemed relevant.

One key element of the Sustainability Programme is the continuous improvement to the range of financings and promotional programmes. At KfW Bankengruppe, we are continually enhancing our environmental product range; a number of new environmental finance and promotion features have already been introduced over the past few years. Promotional solutions for business start-

ups and SMEs will more strongly incorporate issues relating to demographic change and globalisation.

KfW plans to carry out a staff survey on working conditions, health and corporate culture, as well as introduce a gender balance strategy. Other new objectives include developing compliance reporting for the Group and extending the KfW sustainability requirements to supplier management. In particular, suppliers will be required to disclose information and to amend their own general conditions of purchase. KfW intends to maintain its ranking in the top 25% of the asset owner peer group regarding compliance, fulfilling all six UN Principles for Responsible Investment (PRI).

In terms of internal operations, the aim is to build on past successes: further reducing consumption, minimising business travel and making this more environmentally-friendly, and incorporating sustainability aspects into procurement. ▶

KfW Bankengruppe Sustainability Programme 2012-2014 target areas

Excerpt from the programme: for more details about KfW's Sustainability Programme, please visit www.kfw.de/sustainability.

Target	Measure	Date
Improving the range of sustainable finance	Implementation of management systems for ongoing improvements in promotional quality (qualitative growth)	2012
	Launch of the Municipal Energy Supply promotional programme to support the energy turnaround	2012
	Launch of the Accessible City promotional programme to tackle demographic change	2012
	Launch of KfW Age-appropriate Home standard	2012
	Launch of family care leave loan (global loan) to facilitate domestic care arrangements	2012
	Issuance of proposal to the Federal Ministry of Transport, Building and Urban Affairs on promoting excellence in new build homes through an Efficiency House Plus label	2013
	Maintenance of environmental promotional funding from KfW Mittelstandsbank at high levels: EUR 10-12 billion per annum	2012-2014
	New environmental and climate protection commitments to make up at least 50% of all KfW Entwicklungsbank finance	2012-2014
	New environmental and climate protection commitments to make up at least 10% of all export and project finance (KfW IPEX-Bank)	2012-2014
	New environmental and climate commitments to make up at least 35% of new financing projects (DEG)	2012-2014
	Introduction of new international promotional models for climate protection and adaptation to climate change to strengthen the Federal Government's position in UN climate negotiations	2013-2014
Preventing environmental and social risk; improving environmental and social impact assessments for projects co-financed by KfW	Participation in EU Commission Expert Group on Social Business	2012
	Expansion of the range of advisory services to help clients identify and implement environmental and climate protection measures (DEG)	2012-2014
	Systematic cooperation with international promotional banks in order to boost environmental and climate finance for developing and emerging countries	2013-2014
	Development of an evaluation process for environmental and social impact assessment reports (KfW IPEX-Bank)	2014
Enhancing sustainability management	Review as to whether the KfW sustainability management system could qualify for ISO 14001	2012
	Adoption of a group-wide position paper on financing coal-fired power stations	2012
	Adoption of a group guideline on sustainable procurement	2012
	Analysis of integrating reputational risk management into the risk management process	2012
	Appointment of an energy manager to improve efficient, low-impact energy usage in KfW buildings	2012
Combating corruption and criminal offences	Combating corruption and criminal offences	2012
	Definition and implementation of a comprehensive training strategy covering all compliance issues	2012-2014
	Improvement in the whistleblower system	2013
Implementing a sustainable investment approach	Increase in the liquidity portfolio and new investments made for asset management purposes solely to ensure compliance with the sustainability framework	2012-2014
	Improvement in the Responsible Investment strategy through cooperation with international working groups (UNEP FI, Global Footprint Network and UN PRI)	2012
Making procurement more sustainable	Monitoring of compliance with the requirements for sustainable procurement (DEG)	2013
	Incorporation of established labels (e.g. Blue Angel) and standards (e.g. ILO core labour standards) into the KfW Bankengruppe public procurement procedures and product group strategies	2013-2014

Target	Measure	Date
Improving dialogue with stakeholders	New online advisory services for energy-efficient construction and refurbishment and start-up finance	2012
	Introduction of a regularly occurring sustainability day for KfW's financial market partners	2013
	Overhaul of online communication activities and launch of sustainability section on website	2013
Reducing in-house consumption	Pilot project to test workstation-based video conferencing involving around 100 staff	2012
	Preparation of simplified environmental balance reports at five international offices	2012
	Review of implementation of "deep sleep" hibernation mode for PCs (minimum standard: S4) during Windows 7 rollout	2013
	Evaluation of use of LED technologies as a replacement for standard lighting, particularly in non-office areas (e.g. underground car parks)	2013
	Review of energy standards and scope for improvements in older KfW buildings	2013
	Maintenance of recycled paper use at 100%; further cuts in paper consumption per employee (DEG)	2012–2014
Reducing the impact of business travel and fleet vehicles on the climate and environment	Improvement in fleet vehicle fuel consumption and analysis of possibilities for moving to alternative fuel systems (hybrid, electric) (DEG)	2013
	Review of options to reduce greenhouse gas emissions from business travel, fleet vehicles and commuting	2013
	Assessment of possibilities for increasing use of electric vehicles and electric bicycles as fleet vehicles	2013
	Optimisation of fleet fuel consumption and CO ₂ emissions. Target average emissions: < 140g/km (DEG)	2012–2014
Encouraging more responsible treatment of staff	Presentation on KfW's sustainability management and commitments during introductory seminar for vocational trainees	2012–2014
	Expansion of the range of health management options available and preventative training to raise awareness of the issue of burnouts (DEG)	2012–2014
	Review of possibility of expanding the in-house health management system with more emphasis on prevention	2013–2014
Enhancing gender and diversity policy	Piloting coaching programme for women; focus on management and career development	2012
	Specific targeting of high-potential female employees and encouraging them to participate in potential assessment procedure	2012–2014
	On average, one in two management vacancies and senior positions above job grade level III not covered by collective wage agreements to be filled by a woman	2012–2014
Improving work/life balance	Expansion of opportunities for managers to work part-time	2012–2014
	Revision of bank rules on telecommuting and increasing the proportion of employees working from home (DEG)	2013
Assuring quality of further training and management development	Systematic procedure for identifying potential and succession planning; use of modern aptitude tests when recruiting managers and comprehensive module-based management training (including Leadership Development Programme) (DEG)	2014
Increasing social commitment	Approval of a bank-wide guideline on donations and sponsorship	2012
	Creation of a foundation to incorporate all corporate citizenship activities	2012
	Participation of DEG in Cologne Volunteering Day for first time as part of DEG's 50th anniversary celebrations (DEG)	2012

Source: KfW.

Environmental targets achieved

Targets included in KfW Bankengruppe's Environmental Protection Programme for 2009–2011 were mainly designed to reduce in-house consumption and improve the bank's environmental protection measures. Most of these objectives

have been achieved as planned. The main features of the programme are listed below, together with details of progress made. A more comprehensive description of the environmental programme is available under www.kfw.de/sustainability.

KfW Bankengruppe Environmental Protection Programme 2009–2011 target completion rate

Area	Measure	Date	Progress
Energie	Review of scope for further improvements in lighting concept, including lighting for artwork (Frankfurt, Berlin, Bonn)	2010	Partially completed. Bonn (LEP2 building), Berlin: tests with LED lighting
	Long-term monitoring in the main building and East Arcade building in Frankfurt	From 2010	Completed
	Monitoring extended to include new West Arcade building in Frankfurt	From 2010	Completed
	Monitoring introduced for new building based on Frankfurt method (DEG, Cologne)	From date of moving in	Completed
	Creation of virtual servers to replace existing servers by end-2011, where possible and reasonable	2008–2011	Not completed
Energy & emissions	Review of energy usage in canteens (Frankfurt, Berlin, Bonn)	2010	Not completed
	Raising of staff awareness of climate issues via carbon calculator on the Intranet	2009	Not completed
Energy & water	Participation in pilot project for German Certification for Sustainable Buildings (DEG, Cologne)	2009	Completed
Emissions	Review of participation in Deutsche Post's "GoGreen" project	From 2009	Not completed
Transport	Participation in Sustainable Bonn project	Ongoing	Completed
	Participation in the "Cycle to work" initiative	Annual	Completed
	Participation in "bike + business" project	Ongoing	Completed
Material consumption	Increase in proportion of recycled paper used to over 80%	2010	Completed
Waste	Review of waste produced by canteens (Frankfurt, Berlin, Bonn)	2010	Not completed
Nutrition	Use of regional and certified foods	Ongoing	Completed
All areas	Certification of the Frankfurt canteen with the organic label under EU Regulation on organic production	2009	Not completed
	Implementation of framework guidelines for green procurement	2010	Completed (2012)
	Exhibition on climate and environmental protection at KfW, to be displayed in all four locations in Germany	2011	Completed (2012). Exhibition replaced by special staff event on sustainable management and sustainable mobility
	Projects for vocational trainees on various subjects	2010/2011	Not completed
	"Natürlich wir!" information campaign	2009/2010	Completed (2012). Exhibition replaced by special staff event on sustainable management and sustainable mobility

Source: KfW.

Corporate governance and compliance

KfW Bankengruppe is a public law institution governed by the KfW Law. KfW and its subsidiaries are committed to responsible corporate governance and to full compliance with the law and specific preventive measures pertaining to money laundering, financing terrorism, corruption and fraud.

Management by shareholders and in accordance with the KfW Law
KfW's share capital is owned by the Federal Republic of Germany (80%) and the federal states (20%). The KfW Law defines KfW's legal form, purpose and tasks. The bank's activities are limited to the tasks set out in the KfW Law. The bank's By-Laws define the fundamental management and administrative powers of the bank's executive bodies.

>>> AAA
KfW currently has a triple-A rating from the rating agencies Fitch, Moody's and Standard & Poor's.

Generally, promotional programmes are developed in close consultation with the German Federal Government. In certain cases, the Federal Government may instruct KfW to execute transactions that are of particular interest to the Federal Republic of Germany. KfW has an AAA rating from the ratings agencies Fitch, Moody's and Standard & Poor's thanks to the bank's top-notch credit rating and the additional secur-

ity offered by its institutional liability and the direct guarantee of the Federal Republic for certain liabilities.

Responsible corporate governance
Corporate governance and supervision at KfW Bankengruppe are based on the principles and standards defined in the German Public Corporate Governance Code (PCGK). This translates into improved shareholder and stakeholder confidence. The Group's By-Laws were revised in 2010 to transpose the Federal Public Corporate Governance Code. The Executive Board rules of procedure were also amended, while the procedures for the Board of Supervisory Directors were reviewed and reformulated as new rules of procedure. In 2011, KfW issued its first Declaration of Compliance with the Federal Public Corporate Governance Code. Any divergences from the recommendations contained in the declaration are disclosed in the annual report. For all majority shareholdings, the Group assesses whether shareholder resolutions are consistent with the bank's sustainability guidelines.

Control

KfW is subject to the legal supervision of the Federal Ministry of Finance in conjunction with the Federal Ministry of Economics and Technology. The Federal Audit Office regularly audits KfW. The KfW Board of Supervisory Directors usually meets three times a year and performs control and shareholder functions. The Board has 37 members, as defined in the KfW Law, which also sets out its duties. The Federal Minister of Finance and the Federal Minister of Economics and Technology share the chair of the Board of Supervisory Directors, each serving for one year at a time. The KfW Executive Board and Board of Supervi-

sory Directors work in close cooperation and consult on important issues relating to corporate governance and strategy.

Executive Board remuneration

The KfW remuneration system is designed to ensure that staff and members of the Executive Board are paid in accordance with their duties. Within the Executive Board, only the Chief Executive Officer receives a variable end-of-year bonus based on the annual target agreement defined with the chair of the Executive Committee. The agreement includes promotional policy targets and, as such, also sustainability targets.

Risk management

KfW complies with the supervisory requirements relating to risk management. To this end, the main elements of risk management have been combined in one department. The division of front and back office duties ensures that risk assessments are independent. The primary task of risk management is to maintain risk-bearing capacity within the bank's defined risk tolerance. This encompasses all risks relevant to the Group: credit and market price risks (interest rate, currency and credit spread risk), liquidity risk, operational risk and reputational risk. All these risks are constantly monitored in order to identify any critical developments early on and take appropriate corrective measures. Risk management also uses stress testing to assess specific risk scenarios, such as the impact of a profound recession.

KfW is constantly refining its risk management processes and instruments. Actual key considerations include the requirements proposed in the draft EU regulation on stabilising the financial ►

markets (CRD IV/Basel III) and amendments to the minimum requirements for risk management (MaRisk) introduced by the German Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht – BaFin).

Code of conduct

The duties of the members of the Executive Board are defined in legal provisions, the KfW Law and By-Laws, the relevant rules of procedure and their employment contracts. These duties must be performed independently, impartially and without regard for personal interests. The code of conduct for members of the KfW Executive Board sets out how these basic principles translate into practice. The code of conduct defines how to deal with conflicts of interest, gifts, secondary employment and honorary posts. The members of the KfW Executive Board have voluntarily agreed to the code of conduct. The “Rules of conduct governing the acceptance of gifts and other benefits” are binding for all KfW employees. In 2005, the rules were expanded to include a

code of conduct for all staff. This code of conduct covers situations in which employees could be deemed complicit in corruption. Employees must reject any attempt at bribery out of hand and inform their line manager and the officer for fraud and corruption prevention in the compliance department (appointed by the Executive Board).

Preventing corruption

KfW firmly rejects all forms of corruption and has specifically included combating corruption in its mission statement, the KfW Compass. Although KfW is not subject to the German Banking Act (Kreditwesengesetz – KWG), it does apply the relevant provisions on preventing crime, including corruption. The relevant provisions of the German Federal Government's anti-corruption policy designed to prevent corruption within the federal administration also apply.

In view of the aforementioned norms, KfW has appointed an officer for preventing fraud and corruption. The officer carries out an annual risk assess-

ment for all business areas, taking into account client and business partner risk, product, process and transaction risk and sovereign risk.

The assessment of sovereign risks includes consulting the Corruption Perception Index published each year by Transparency International. Typically, corruption risks may exist when authorising loans or subsidies, and in procurement and public works contracts.

All KfW employees are given anti-corruption policy and procedure training. KfW IPEX-Bank and DEG also provide classroom training sessions. Staff can also consult information about corruption issues on the Intranet. KfW is currently looking at the possibility of introducing compulsory online training.

All suspicious cases are thoroughly investigated. Only one of the allegations of corruption made in the past three years was upheld. KfW Bankengruppe took disciplinary measures (dismissal) and initiated legal proceedings (criminal



Preventing corruption: specific training is compulsory for all Group employees.

complaints, claim for compensation). Other offences (e.g. breach of confidentiality, fraud and embezzlement) were the subject of detailed investigations, which resulted in appropriate remedial measures, including dismissals. In response to one instance of fraud, the bank optimised the relevant processes, particularly the verification process, and also took disciplinary measures against the individual concerned (dismissal) as well as initiated legal action (criminal complaints, claim for compensation). All potential sanctions are set out in the guidelines on preventing criminal offences.

KfW and DEG are corporate members of Transparency International and supporting members to the Extractive Industries Transparency Initiative (EITI), a coalition of governments, private companies and civil society organisations. The EITI aims to improve transparency in the extractive industries: income from raw material extraction in developing countries must be transparent and contribute to national budgets so as to support sustainable development in those countries.

Preventing money laundering

KfW Bankengruppe supports international efforts to fight money laundering and the financing of terrorism. The bank has introduced rules on structural organisation and procedures to implement the statutory requirements. These include written organisational instructions, the appointment of an anti-money laundering officer and regular staff training. In order to prevent its business activities from involvement in funding of terrorism, the KfW Group regularly runs an automated computer-based check of its own database of all business partners against the most recent EU sanctions list.

One key element in combating money laundering is definitive customer identification. Any transaction involving politically exposed persons triggers an immediate review of the business relationship. The origin of any third-party assets must be demonstrated. If any doubt remains as to whether a transaction may be in breach of the money laundering rules, the bank will terminate

the business relationship, where legally possible. All suspicious transactions are reported to the relevant authorities and the Financial Intelligence Unit of the Federal Criminal Police Office (Bundeskriminalamt).

Data protection

The bank complies with the relevant legal provisions on the collection, dissemination and use of personal data. The group guidelines state that personal data may only be disclosed with the consent of the individual concerned. Technical and organisational security measures are designed to protect the data from accidental and intentional manipulation, loss, damage or access by unauthorised persons. The security measures are continuously updated to reflect technological advances. All staff have a strict duty of confidentiality.

KfW Bankengruppe did not lose any customer data during the reporting period. However, in 2009 a justified complaint was made by the Federal Commissioner for Data Protection and Freedom of Information. The complaint referred to

the clause on the collection, processing and use of company and personal data in relation to applications for renewable energy loans. The application process involved passing on information to the Federal Ministry for the Environment, Nature Conservation and Nuclear Safety, which was deemed to be inadmissible. The consent clause has been amended accordingly. ■



Strict standards: Bank-wide guidelines govern the use of personal data.

Sustainable business processes

Demanding sustainability standards apply to all business processes within the KfW Group, from individual financing decisions, to portfolio management and procurement. Environmental and social considerations, transparency and fairness are essential not only to promotional activities, but also in the bank's dealings with customers.

Environmental and social standards for promotion and financing

KfW assesses the potential environmental and social risks and opportunities associated with the bank's business activities, either in terms of new promotional programmes, credit lines, facilities, initiatives undertaken in conjunction with third parties or decisions on individual applications

for finance. Based on their respective mission and distinct framework conditions, specific sustainability guidelines define the responsibilities, procedures and standards for environmental and social impact assessments within each business unit and a regular monitoring schedule. The Group has around 60 technical and social experts from different disciplines to support the assessment activities, and also makes use of external experts and management consultants.

Compliance with the respective national laws is a minimum requirement for all promotional activities and financing. In order to maintain demanding environmental and social standards, KfW Bankengruppe also orients itself along international benchmarks, including standards issued by the European Union, the World Bank Group (Safeguard Policies for public sector finance; International Finance Corporation Performance Standards for private sector financing) and the International Labour Organisation (ILO). Projects that are likely to have an unacceptable environmental or social impact are not eligible for funding.

The Group has issued a declaration on universal human rights which serves as a benchmark for all business activities. KfW Bankengruppe ensures that local populations are informed and can participate in the approval process for all promotional activities and finance. Respecting the rights of indigenous peoples is a particular priority. Employees who deal with financing for projects outside the EU and OECD member states are offered regular training on the processes and standards for environmental and social impact assessments. The training is compulsory for all new employees in



the KfW Entwicklungsbank business area KfW IPEX-Bank and DEG (international finance).

The business area KfW Entwicklungsbank and the subsidiaries KfW IPEX-Bank and DEG have an initial screening process for all promotional and financing projects. If the process identifies risk factors, such as weaknesses in national environmental and social legislation or enforcement, a more in-depth examination will be undertaken. German Financial Cooperation with developing countries and emerging markets is also subject to a climate change assessment. The assessment is designed to ensure that the intended developmental benefits will not be jeopardised by the foreseeable consequences of climate change. It also looks at whether all potential for reducing greenhouse gas emissions has been exploited. If large volumes of greenhouse gases are emitted, a more detailed analysis will be carried out.

KfW Bankengruppe also requires suitable action plans and remedial measures to be taken in order to avoid financing and promotional activities from having harmful environmental and social impacts, or to reduce or offset that impact. Monitoring plans impose regular checks throughout the project life cycle. Funding recipients undertake to provide the Group with regular detailed reports on the implementation of the agreed preventative measures. The business area KfW Entwicklungsbank also conducts its own regular progress reviews. In order to guarantee monitoring quality, DEG has carried out a number of sector-based portfolio analyses in recent years, including for the finance and textile sector. All supported projects in a given

region were assessed, with a view to identifying trends and learning lessons for future financing activities. The KfW Group also helps its partners find suitable solutions for preventing, reducing and, if necessary, offsetting negative environmental and social impacts. When cooperating with and providing finance to financial sector companies from non-EU and non-OECD countries, the Group takes care that the companies define and implement environmental and social management systems in line with KfW's sustainability policy.

Regular business banks are KfW's sales partners for promotional activities in Germany. The banks monitor whether promotional funding is used in a timely and appropriate manner. KfW Bankengruppe regularly checks that the loans made available through regular banks are properly managed. Some promotional programmes require an external auditor to confirm that the loan has been used in accordance with the programme's remit. KfW also carries out random on-site inspections of promoted measures. Legally binding verification that direct loans to municipalities have been used for the stipulated purpose must be provided. Checks in municipalities may also be performed by external experts and – in a few cases – in the form of on-site inspections.

Evaluating the impact of promotional activities

KfW Bankengruppe evaluates the impact of its promotional activities (also see tables on pages 6-7). Procedure and scope of the evaluation are determined by the nature of the promotional activity. The business area KfW Entwicklungsbank assesses the developmental impact and the targets achieved by the

completed project by means of thorough on-site inspections based on representative sampling. DEG has a standard rating procedure for the entire portfolio. The portfolio is regularly reviewed in conjunction with private sector partners and selected results are examined in further detail. Key domestic promotional programmes are evaluated.

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years after funding is disbursed, KfW analyses the effects of German Financial Cooperation.

The business area KfW Entwicklungsbank analyses the impact of Financial Cooperation projects and programmes (total volume 2011: EUR 4.5 billion) between three and five years after the final payment is made or the financed facilities begin operating. The analysis process considers the economic, environmental and social impact. In order to avoid distortions, a stratified random sample is taken for over half of the completed measures in each sector (water, energy, healthcare, education, etc). The review looks at the available documentation and usually involves an on-site expert assessment. In the interests of impartiality, the independent assessors must not have been involved in the design and implementation of the measure.

The developmental success of projects is evaluated using the OECD Development Assistance Committee criteria: ▶

relevance, effectiveness, overarching impact, efficiency and sustainability. Selected projects in the business area KfW Entwicklungsbank are also evaluated in more detail. Information about target groups and a control group is collected to produce more accurate measurements of the impact using empirical statistical methods. The bank also engages in cross-cutting evaluations, which look at the evaluation findings of several projects of a given type in order to draw more general conclusions. The business area KfW Entwicklungsbank publishes the evaluation results in a biannual report; the most recent report was published in 2011.

DEG evaluates and manages the business and developmental effects of projects it co-finances (2011 portfolio: EUR 5.6 billion) using the corporate policy project rating system. The internal integrated measurement system classifies projects in one of four categories using a scoring system; projects are then assigned to a business and development policy quality group. The anticipated developmental impact of new project commitments is identified using the documentation available and a site inspection (*ex ante*). Since 2004, all projects have also been subject to an ex post review to determine actual impacts. The bank is therefore able to compare expected outcomes and the actual targets achieved during each project life cycle. Portfolio-specific issues are evaluated by the DEG Economics/Development Policy department or independent external experts. The evaluation is based on the OECD Development Assistance Committee criteria. In addition, the corporate policy project rating system and its application are reviewed. DEG is increasingly making use of cost-benefit analyses in order to gain a better understanding of the development impact for the local population.

KfW regularly evaluates key promotional programmes for Germany. For example, promotional funding for renewable energies in Germany (2011: approximately EUR 7.6 billion from various programmes) is reviewed extensively by an independent research institution each year. The evaluation looks at greenhouse



Impact of development assistance:
projects and programmes of the business area KfW Entwicklungsbank are systematically evaluated.

gas emission reductions and the impact on employment and growth. Under an agreement with the Federal Ministry of Transport, Building and Urban Affairs (Bundesministerium für Verkehr, Bau und Stadtentwicklung – BMVBS), the impact of programmes to promote energy-efficient construction and renovations with interest rates reduced from federal budget funds is assessed by independent research institutes (2011 commitment volume: EUR 6.6 billion). KfW's Student Loan programme (2011 funding volume: EUR 1 billion) was first evaluated in 2011, five years after it was launched (see part on "Our responsibility"). KfW's own economics department undertakes a range of other internal evaluations and monitors the impact on employment, investment, turnover and the environment.

Portfolio management

KfW became a signatory to the UN Principles for Responsible Investment (PRI) in 2006, thereby committing itself to making sustainable investments, encouraging other market participants to make sustainable investments, and providing comprehensive reports on its investment activities in this area. To this end, the bank has been developing a sustainable investment approach for the liquidity portfolio and initiated other activities relating to sustainable investment. The annual PRI report based on self-

assessments carried out by signatory banks provides the Group with detailed feedback on compliance with the principles and serves as a valuable steering instrument. KfW ranked in the top group for all evaluation criteria in 2011. In May 2011, the bank set up a German PRI network with a view to promoting the concept of sustainable investment in Germany. KfW is also a member of a working group on implementing the UN PRI among bond investors.

KfW's liquidity portfolio is an essential component in the liquidity maintenance strategy. The EUR 20 billion portfolio is made up solely of bonds issued by governments and supranational organisations, bank bonds and Pfandbriefe. The bonds are selected on the basis of diversification criteria, issuer credit ratings and sustainability ratings. In 2008, KfW incorporated environmental, social and corporate governance criteria (ESG) into the existing investment process in order to take sustainability ratings into account.

**>>> EUR 20 billion
in KfW's liquidity portfolio.**

The bank uses an internal limit process to assess issuer creditworthiness and sets individual investment volume limits. The issuer's sustainability rating is determined by a sustainability rating agency based on KfW's own criteria. KfW sees itself as an environmental bank and has weighted the ESG criteria accordingly: 60% environment, 20% each for social and corporate governance issues. Sustainability is assessed in relation to all issuers in the liquidity portfolio using three issuer categories (good, average, relatively poor). The categories determine whether the investment volume limit for a given issuer is maintained or reduced. Thus, securities from particularly sustainable issuers are overweighted within the portfolio. The sustainability ratings are updated each month.

In parallel with the ESG criteria, KfW introduced exclusion criteria in its investment portfolio for non-government issuers in early 2011. These criteria are based on the IFC Exclusion List. The aim is to ensure that KfW's bond investments do not trigger negative environmental, social and corporate governance impacts.

As KfW's investment approach considers issuer sustainability in relation to all other issuers in the portfolio, we feel that it is appropriate to inform issuers about their current sustainability rating and any potential exclusion criteria. We also encourage issuers to maintain and enhance their sustainability commitments. To this end, KfW Bankengruppe provides issuers with detailed information about the sustainable investment process and highlights any strengths and weaknesses in each issuer's sustainability rating. The Group also supports the joint project of the Finance Initiative of the United Nations Environment Programme (UNEP FI) and Global Footprint Network on integrating environmental risk in credit ratings of countries. The bank plans to hold a regular sustainability day event for financial market partners.

'Portfolio Institutionell' magazine awarded KfW the title of "Best sustainable investor" in 2011 in recognition of its innovative approach to sustainable investment.

Responsible procurement

KfW spends around EUR 300 million on procurement each year (2011: EUR 310 million). Of the approximately 2,900 active suppliers who currently have procurement contracts, around 95% are based in Germany and the remaining 5% in other OECD states. Around 70% of all procurement expenditure is made up of public contracts awarded in the formal EU public procurement process by KfW's EU contracting authority.

As a public contracting authority, KfW is required under EU law to put all procurement contracts exceeding a certain threshold to tender throughout the EU. The tender process places particular focus on the principles of transparency, non-discrimination and fair competition. In addition to public procurement legislation, the German award rules for goods and services (Verdingungsordnungen für Lieferungen und Leistungen – VOL), construction contracts (Verdingungsordnungen für Bauleistungen – VOB) and freelance services (Verdingungsordnungen für freiberufliche Leistungen – VOF) also apply.

A variety of social and environmental requirements for suppliers are also included in the formal tender process, subject to procurement law and the specific contract terms. The requirements guarantee fair competition at market rates and economic purchase conditions. KfW applies similar strict social and environmental requirements to goods and services contracts that fall below the EU tender threshold.

introducing environmental and social standards. The guidelines are binding for KfW and its subsidiaries DEG and KfW IPEX-Bank. The procurement guidelines require the Group's suppliers and service providers to take particular account of environmental and social issues. In the case of products and services with a significant environmental impact, KfW requires suppliers to have guidelines and management systems in place in order to minimise this impact.

Companies directly contracted by KfW must not employ any children below the minimum age defined in national and international legislation and standards, neither must they allow any kind of forced labour. Salaries, benefits and working hours must be in line with or above the legal minimum and should reflect local standards. KfW's suppliers and service providers must not engage in bribery price fixing or other corrupt practices and should oppose all forms of corruption, including blackmail and bribery. The provisions of the guideline are gradually being incorporated into new and existing contracts. KfW will take reasonable steps to verify that suppliers and service providers comply with the guidelines.

Recognised certification schemes are a valuable means of assessing product and manufacturer sustainability. Environmental and social schemes include the Blue Angel, Forest Stewardship Council (FSC), Energy Star and Fair Trade labels, but also international standards such as the International Labour Organisation's core labour standards.

Failure to comply with these values and international standards or non-existence of the requisite certification may result in KfW Bankengruppe excluding the supplier or service provider, subject to the relevant public procurement and purchasing legislation.

KfW's sourcing unit is a member of the German Association of Materials Management, Purchasing and Logistics (Bundesverband Materialwirtschaft, Einkauf und Logistik – BME) and the German Rationalisation and Innovation Centre (Rationalisierungs- und Innova- ▶

**>>> In 2012
KfW Bankengruppe
adopted a guideline
on responsible
procurement.**

In 2012, KfW Bankengruppe adopted a sustainability guideline on responsible procurement, which supplements the existing KfW procurement guidelines by

tionszentrum der deutschen Wirtschaft – RKW). The sourcing unit participates in several procurement working groups within the two organisations. Procurement staff attend relevant introductory and advanced training courses.

Customer relations

KfW's distribution system for promotional programmes in Germany is essentially based on loans being issued via banks, savings banks, promotional institutions of the federal states, and other key partners. In the field of education finance, KfW's distribution partners include banks, student unions and financial services providers. The KfW programmes offering grants for advisory services are built around a broad network of regional partners, including chambers of commerce, industry and trades, and energy agencies. These intermediaries serve as a valuable point of contact for KfW's customers.

The KfW Group aims to ensure that its online presence is fully accessible, in accordance with the international Web Content Accessibility Guidelines (WCAG 2.0) issued by the World Wide Web Consortium (W3C) and the criteria set out in the German Federal Ordinance on Barrier-Free Information Technology (Barrierefreie Informationstechnik-Verordnung – BITV).

In the period under review, KfW focused on improving communication with sales partners and final customers. In 2010, the bank's online presence was completely overhauled and large sections were reworked. In order to improve awareness of its products and how they can be used, KfW has been targeting multipliers who have direct contact with the final customer.

Tailored information has been produced for target groups such as tax advisors, architects and structural engineers, but also for chamber of commerce and business advisors, all of whom can disseminate information about KfW's promotional programmes. The KfW Academy set up in 2010 offers energy efficiency seminars for energy consultants, architects and structural engineers to increase their financial knowledge.

In 2011, KfW Group launched the multi-annual Customer Communication programme, which encompasses all key issues relating to customer relations. A core component of this is enhancing online communications in order to provide sales partners and final customers with clearer, more transparent and easily accessible information about products, the application process and the links between KfW and its sales partners. As part of KfW's quality management system in 2011 the complaints procedure was completely overhauled and is now strictly based on modern standards for banks and service providers.

Customer and partner feedback provides valuable pointers on how its finance products and services can be improved. The bank therefore altered its customer satisfaction analysis system in 2011 to use monthly surveys. A representative sample of recent borrowers and grant recipients are invited to comment on their satisfaction with KfW's products, application procedure and information services.

In the second half of 2011 the surveys indicated that new KfW customers were satisfied or very satisfied, which is above average for the bank and savings bank sector. Service, which mostly relates to the KfW Info Centre, was rated particularly highly. Users were impressed by how friendly employees were, the specialist advice they provided, and how easy it was to contact them. Additional surveys among specific target groups, such as energy advisors (architects, structural engineers, tradesmen) have provided valuable tips on how communication can be improved and which issues are seen as barriers.

Stakeholder dialogue

KfW Bankengruppe engages in active and open discussions with stakeholders. The Group provides transparent and up-to-date information about its sustainability activities and new developments via the sustainability portal of its website (www.kfw.de/sustainability). As an international promotional bank and public law institution, KfW deals with international stakeholders from all areas of society.

Key stakeholders include:

- shareholders, public sector clients and strategic partners in politics and business
- final customers and borrowers who take up promotional programmes or export and project finance
- the general public
- the media, scientists and non-governmental organisations
- analysts and investors
- bond issuers
- suppliers
- local residents at KfW locations
- the women and men on KfW's staff

KfW Bankengruppe is committed to the German Federal Government's sustainability strategy. Its social commitments encompass promotional themes such as the energy turnaround, globalisation, demographic change and sustainable, results-based development cooperation. These issues are discussed in face-to-face meetings, information sessions, conferences and networks. The bank also has regular contact with other national governments to discuss setting up promotional banks. Over the years, KfW staff have regularly been seconded to key German ministries, including the Federal Chancellor's Office (Bundeskanzleramt – BK) and Federal Ministry of Economics and Technology (Bundesministerium für Wirtschaft und Technologie – BMWi). The Group does not give donations, either financial or in kind, to political parties, politicians or party-political bodies.

Memberships and mandates

KfW is involved in numerous initiatives and associations. Below is a list of selected bodies of which we are members and which have a bearing on sustainability:

- Business and Biodiversity Offsets Programme (BBOP)
- Biodiversity In Good Company
- BioFrankfurt
- Conservation Finance Alliance (CFA)
- Association of European Development Finance Institutions (EDFI)
- Extractive Industries Transparency Initiative (EITI)
- Forum für Zukunftsenergien (Forum for future energies)
- Reproductive Health Supplies Coalition

- Strategic European partnership for the promotion of knowledge transfer and financing intellectual property
- United Nations Environment Programme Finance Initiative (UNEP FI)
- Transparency International Deutschland e.V.
- Association of German Public Banks (Bundesverband Öffentlicher Banken Deutschlands – VÖB)
- Equator Principles Association (KfW IPEX-Bank)

KfW representatives sit on the supervisory boards of DEG, KfW IPEX-Bank, the German Energy Agency (dena) and Berlin

Energy Agency (BEA), amongst others. The bank has shares in both agencies. Representatives of the bank also sit on the boards of trustees of the Gesellschaft für Unternehmensgeschichte e.V. (business history research institution), the Institute of Development Research and Development Policy at Ruhr University (Bochum), the Senckenberg Museum of Natural History and the Frankfurt Zoo.

KfW holds honorary positions and mandates in the following institutions (list is not exhaustive):

- Cologne Institute for Economic Research (IW)

- Federal Institute for Geosciences and Natural Resources (BGR)
- CDU Parliamentary Committee on Development Cooperation and Human Rights
- Indo-German Advisory Group (DIGB)
- European Finance Forum (eff)
- Friedrich Ebert Foundation Managers' Group (FES)
- North Africa Middle East Initiative of German Business (NMI)

KfW also has a long-standing partnership with WWF Germany. ■

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Stakeholder dialogue on financing projects

KfW takes all criticism of its operations very seriously. The bank seeks to engage in dialogue with stakeholders because it believes that discussion can drive new developments.

Here are two practical examples. In 2009, Greenpeace criticised the loan issued by the KfW subsidiary DEG to PT Smart in Indonesia for a refinery to process palm oil for local consumption. The environmental organisation suggested that the company had disregarded environmental standards. DEG had agreed to finance the project on the condition that strict environmental standards were contractually guaranteed. These standards combined the internationally recognised World Bank and ILO environmental and social standards and the Round Table on Sustainable Palm Oil criteria. In response to the criticism, KfW entered into dis-

cussions with Greenpeace representatives and DEG commissioned an in-depth on-site investigation. The investigation uncovered infringements at a new plantation managed by PT Smart along with deficiencies in the supervision and monitoring of environmental issues. None of the charges related to the palm oil refinery co-financed by DEG or the direct supply chain. Nevertheless, DEG requested the company to take action to remedy the situation. A comprehensive action plan was drawn up for all of the company's palm oil plantations, as such going far beyond the co-financing project. DEG had already decided not to finance any more palm oil projects in Indonesia in late 2007. PT Smart repaid the loan early, in December 2010.

In addition to promoting renewable energies, KfW provides limited funding for building and

modernising coal-fired power plants abroad. In 2011, members of the German Bündnis 90/die Grünen (Green) party put forward two questions on this point in the German Parliament, which received responses from the German Federal Government on 17 November 2011 and 10 August 2012. When providing co-financing for projects, KfW focuses on the use of cutting-edge highly-efficient generation technologies and rehabilitation that will have positive environmental benefits. The technologies offer massive potential savings, particularly in emerging and developing countries, when compared with existing, mostly inefficient generation methods. KfW Bankengruppe has defined the standards for co-financing such plants in the "KfW position paper on financing coal-fired power plants" (see information on the Sustainability Programme, pages 10-11).

In-house environmental protection

KfW Bankengruppe aims to be a role model and a trailblazer in the financial sector by keeping the environmental impact of its operating processes to an absolute minimum. The Group's offices are an essential factor in this approach and are designed to be highly energy efficient. Building management is a key tool for improving environmental protection in banks. In 2006 the Group began offsetting all CO₂ emissions linked to energy consumption in its offices and to business travel.

In-house environmental management at KfW Bankengruppe

KfW first established an environmental management system in 1994, which was extended in 2009 to include sustainability management. This system forms the basis for ongoing improvements to environmental performance and reducing consumption. In the period under review, all per capita consumption figures were reduced, some substantially. In order to raise staff awareness of environmental protection issues, the KfW Bankengruppe sustainability team provides regular updates and training.

The primary goals of in-house environmental protection are efficient use of resources, reducing waste and protecting air, water and soil quality. KfW's Sustainability Programme contains an overview of the main projects planned for 2012 to 2014 (see table on pages 10-11). The programme includes a summary of the targets achieved under the Environmental Protection Programme between 2009 and 2011 (see table on page 12).

The figures cover all properties owned by the Group in Germany and all rented buildings in Frankfurt. In 2012, the bank produced the first environmental balance for international offices with a view to gradually providing an overview of consumption outside Germany.

Energy consumption and green electricity

Since 2008, all electricity used in the bank's own properties and most rented buildings has come from renewable sources. The German Technical Inspectorate (TÜV SÜD) in charge of the Frankfurt area confirmed that all electricity used by the bank in Frankfurt in 2011 was generated by hydropower, which represents a reduction of some 12,800 tonnes of CO₂ emissions compared with conventional electricity. KfW also generates its own electricity in two independent natural gas cogeneration units, using the exhaust heat for heating. Photovoltaic panels have also been installed, with a total maximum output of around 115 kilowatt-peak. The electricity generated in Frankfurt is fed into the grid, while other locations use the energy themselves. Two wood pellet incinerators provide basic heating for the East Arcade and Senckenberglanlage buildings in Frankfurt. The DEG building in Cologne is heated using environmen-



Pioneering in-house environmental protection: the new West Arcade building in Frankfurt was awarded the title of "Best Tall Building Worldwide" in 2011.

tally friendly district heating. During the period under review, KfW Bankengruppe reduced energy usage to approximately 41,031 MWh in 2011 (see table). The proportion of renewable energies in the bank's total consumption rose from around 40% in 2009 to over 50% in 2011.

>>> 50%
of the energy used by
KfW Bankengruppe
comes from renewable
sources.

In 2012 and 2013, KfW intends to assess whether it can begin using biogas in the future, and to what extent. The review will look at issues relating to the origin of the biomass raw materials and potential competition for land use with agriculture, amongst others.

Energy-efficient buildings

When building new offices and undertaking renovations, the KfW Group focuses on achieving maximum energy efficiency and brings external energy advisors on board early in the planning phase. All new and recently renovated KfW buildings come in well below the statutory standards for annual energy consumption as defined in the current German Energy Saving Ordinance (Energieeinsparverordnung – EnEV). As the values prescribed for buildings are based on reference properties, it is hard to compare different buildings' performances.

The new West Arcade building in Frankfurt is one of the most efficient office towers in the world, with annual primary

KfW Bankengruppe energy usage in Germany 2009–2011

	in MWh	2009	2010	2011
Standard grid power	3,929	0	0	0
Green electricity	17,905	19,286	20,100	20,100
Cogeneration unit (own use)	1,743	1,633	1,590	1,590
Photovoltaic (own use)	21	18	22	22
Photovoltaic (fed into grid)	44	46	52	52
Emergency power generators (diesel)	48	76	16	16
Natural gas	23,798	23,164	17,275	17,275
Heating oil	646	430	620	620
District heating	480	640	447	447
Solar thermal energy	19	19	25	25
Wood pellets	419	444	884	884
Total	49,052	45,756	41,031	41,031
Energy consumption per employee¹⁾	10.1	9.0	7.2	

¹⁾ Full-time equivalents. The FTE headcount rose from 4,876 in 2009 to 5,114 in 2010 and 5,717 in 2011. Due to the specific data collection methods used, these figures may diverge slightly from other KfW staffing figures published in this report and other KfW publications.

Source: KfW.

energy usage of around 100 kWh/m² (Energy Saving Ordinance target for similar buildings: 240 kWh/m² per annum). In November 2011, the Council on Tall Buildings and Urban Habitat (CTBUH) in Chicago awarded the building the title of "Best Tall Building Worldwide" in recognition of its impressive performance. The Council considers energy efficiency, architectural design, technical innovations and contributions made to the quality of life of users and local residents.

The KfW headquarters in Frankfurt were built in the 1960s. Refurbishment of the building was completed by 2006, cutting annual primary energy usage by over 50% to 155 kWh/m² (Energy Saving Regulation target for this type of building renovation: approximately 340 kWh/m²a).

The North Arcade building in Frankfurt was completed in 1986 and completely modernised in 2009–2010, which included maximising potential energy

savings. Efficiency improvements included low-energy lighting, motion sensors, daylight management sun screens, an indirect cooling system using evaporative cooling (adiabatic process) and replacing thermal insulation glazing with selective solar control glass. The investment has paid off: the cost of natural gas consumed for heating purposes was reduced by 60% between 2008 and 2011.

The new build DEG office building in Cologne, which the company moved into in 2008, has an annual primary energy usage of approximately 100 kWh/m², which is 50% lower than the German statutory requirement (Energy Saving Ordinance target for this type of new build: around 200 kWh/m²a). This achievement was recognised with a Gold certificate from the German Sustainable Building Council (DGNB) – the top certification level. The new DEG building produces around 700 fewer tonnes of carbon dioxide each year than a standard office building. ▶

Green IT

The data centre and IT infrastructure account for a significant proportion of KfW's electricity consumption. As a step towards green computing, in the course of the next operating system upgrade, KfW will investigate whether the reputable Advanced Configuration and Power Interface (ACPI) standard – an open industry standard for power management – could be implemented. The standard reduces energy consumption by providing a standard power management interface that can be controlled via the operating system.

Business travel and commuting

The travel expense policy for KfW, KfW IPEX-Bank and DEG employees states that business travel plans should take into account the economic benefit, environmental impact and usefulness of the trip in equal measure. Journeys made with company cars should be made in the three LNG vehicles wherever possible. An electric car is available for travelling short distances within Frankfurt. Train is the preferred mode of transport for travel within Germany. In October 2010, KfW began using carbon-free UmweltPlus train tickets in order to cut business travel emissions still further. The average distance travelled per employee remained constant at just under 11,000 km per annum (see table).

With a view to reducing the number of journeys made between Frankfurt and Berlin, KfW launched a pilot IT project in 2012 to test video conferencing facilities on workstations. Around 100 IT staff are involved in the project. If the project proves successful, the system will initially be rolled out for all IT staff at KfW and should eliminate between 500 and 1,000 business trips each year.

»»» **7,000**
virtual meetings were
held within KfW in
2011.

KfW business travel 2009–2011

	in thousand km	2009	2010	2011
Cars (petrol)		343	230	285
Cars (diesel)		3,661	3,260	3,387
Cars (LNG)		80	117	57
Train		3,981	4,494	4,332
Domestic flights		5,734	6,313	8,471
European flights		5,358	5,538	5,719
Intercontinental flights		33,270	35,201	39,083
Total		52,427	55,153	61,334
Business travel per employee¹⁾ (km)		10,752	10,785	10,728

¹⁾ Full-time equivalents; source: KfW.

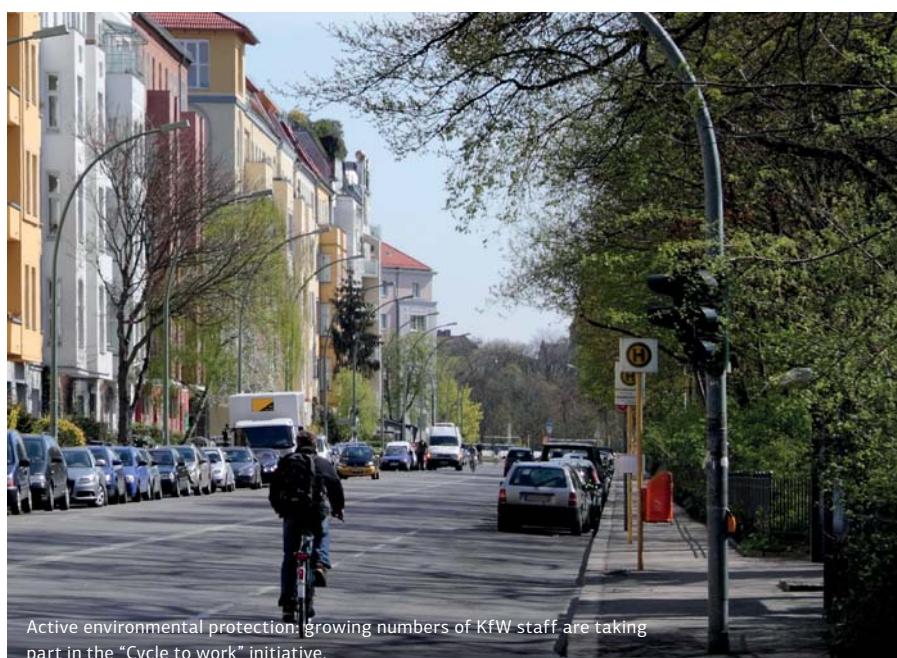
The bank currently has over 50 meeting rooms which are fitted with video conferencing technology. In 2011, around 7,000 virtual meetings were held within KfW. Internal discussions made up 90% of these meetings, while 10% involved external business partners in Germany and abroad.

In Bonn and Cologne, employees who use the public transport system are given a free local public transport pass. In Frankfurt and Berlin, the bank covers the cost of an annual season ticket for each employee's commute. Since 2007, KfW has been taking part in the joint AOK (German health insurer) and German General Cycle Club (ADFC) "Cycle to work" initiative. The number of participants is growing steadily. In the first year, 70 staff took part, but there were more than twice as many participants by 2012.

Offsetting CO₂ emissions

KfW feels compelled to reduce carbon emissions in accordance with the target of restricting global warming to 2°C, which goes hand in hand with implementing the political emissions reduction target of 20% by 2020 and 80% by 2050. It will not be possible to achieve these targets through energy savings and green electricity alone. All outstanding CO₂ emissions linked to building energy usage and business travel at KfW have therefore been offset by the KfW Carbon Fund since 2006. The same offsetting mechanism will be used for 2011 emissions.

The KfW Carbon Fund purchases high-quality Clean Development Mechanism (CDM) certificates traded on the market and holds them as a trustee. KfW then uses the certificates to offset total



KfW CO₂ emissions 2009–2011

	in tonnes	2009	2010	2011
Direct and indirect energy consumption in Germany ¹⁾		8,663	6,016	4,578
Total business travel ²⁾		7,159	7,481	8,255
Total		15,822	13,497	12,833
Emissions per employee³⁾ (kg)		3,245	2,639	2,245

¹⁾ Electricity from the grid, emergency diesel generator, natural gas, heating oil, district heating and wood pellets. Green electricity used by KfW Bankengruppe is shown as having zero CO₂ emissions.

²⁾ Car, train and air travel

³⁾ Full-time equivalents

Calculated using the Gemis database; source: KfW.

emissions. In recent years, the emission reduction credits have come from a landfill gas project in Bandeirante (Brazil).

»»» 100 %
of CO₂ emissions
generated by KfW's
energy consumption
and business travel
are offset.

In the period under review, KfW reduced CO₂ emissions from around 15,800 tonnes in 2009 to approximately 12,800 tonnes in 2011 (see table). This was

largely achieved by a gradual shift to green electricity in all of the bank's own and, where feasible, rented properties in Germany from 2007 onwards, and a gradual move into highly energy-efficient office buildings. However, CO₂ emissions generated by business travel increased due to a significant rise in the number of flights taken.

Charging stations for electric cars

KfW is directly contributing to expanding the infrastructure for electric vehicles in Germany, including at its own locations. In 2012 the Group installed charging stations in Frankfurt, Berlin and Bonn. Staff, visitors and the bank's electric fleet can use the charging stations free of charge. As all of KfW's electricity comes from renewable energy sources, the charging stations are fully carbon-neutral.



Water and wastewater

During the period under review, total water consumption dropped from around 112,000 m³ in 2009 to approximately 92,000 m³ in 2011, despite an increase in employee numbers (see table on page 26). The public drinking water supply provides around 87% of the water used at KfW; just under 13% comes from groundwater extraction and rainwater collection (process water). Drinking water usage has been considerably reduced, whereas process water consumption remained fairly high, at around 12,000 m³. However, water consumption per capita declined from approx. 23 m³ in 2009 to some 16 m³ in 2011, a reduction of around 30%.

In 2010, a fault in the East Arcade building's external watering system resulted in the loss of around 7,700 m³ of drinking water. We now monitor external watering system consumption constantly. Rainwater is used in Frankfurt and Bonn. The toilets in the East Arcade building, the main building in Frankfurt and the new KfW office building on Ludwig Erhard Platz in Bonn (LEP 1) mainly use rainwater instead of drinking water.

A grey water system has also been installed in the East Arcade building. The system purifies wastewater from the staff kitchens, showers and hand basins for use in the toilets and garden watering systems.

At DEG in Cologne, groundwater is used to cool the building. Water from two wells is pumped up from 30 metres below the DEG office. The cold groundwater is passed through a heat exchanger and pumped around the building in a separate water system. The cooling system is far more energy efficient than an air conditioning system which runs on electricity. The building does not use more than 1,500 m³ of water a day; the heated water is fed into a nearby stream which runs into the Rhine.

Paper consumption

As paper is one of the primary materials used in a bank, reducing paper consumption is always a priority at KfW Bankengruppe. Other material consumption ►

KfW Bankengruppe water usage in Germany 2009–2011

	in m ³	2009	2010	2011
Drinking water		96,600	80,700	80,400
Other process water (rainwater and groundwater)		15,300	9,900	11,800
Total		111,900	90,600	92,200
Water consumption per employee¹⁾		23	18	16

¹⁾ Full-time equivalents; source: KfW.

KfW Bankengruppe paper consumption¹⁾ in Germany 2009–2011

	in kg	2009	2010	2011
Recycled paper (Blue Angel)		247,900	311,800	261,100
Writing paper (Blue Angel recycled paper)		1,400	10,200	4,300
Virgin fibre paper				
- Promotional literature (FSC mixed sources label)		35,300	62,500	66,400
- Totally chlorine-free (TCF)		15,500	3,600	700
Total		300,100	388,100	332,500
Paper consumption per employee²⁾		62	76	58
Volume of recycled paper (%)		83	83	80

¹⁾ Refers solely to 80g A4 printer and copier paper

²⁾ Full-time equivalents

Source: KfW.

Waste generated by KfW Bankengruppe in Germany 2009–2011

	in tonnes	2009	2010	2011
Total landfill waste		97	384	440
- non-hazardous waste		0	0	1
- hazardous waste		96	384	439
- highly hazardous waste		1	0	0
Total recycled waste		1,254	1,199	1,313
- non-hazardous waste		580	551	745
- hazardous waste		272	259	202
- highly hazardous waste		1	1	1
Paper for recycling		401	388	365
Total combined waste		1,350	1,583	1,752
Waste generated per employee¹⁾		0.3	0.3	0.3
Proportion recycled (%)		93	76	75

¹⁾ Full-time equivalents; source: KfW.

levels tend to be fairly modest, so they are not reported. However, paper consumption has increased by approximately 10% against 2009 (see table). The rise was linked to higher staff numbers, higher business volumes, certain large-scale projects and restructuring activities. The proportion of Blue Angel certified recycled paper used declined by just three percentage points in the period under review, but is still very high at 80%. The slight drop reflected increased volumes of promotional literature, which also explains the increase in total consumption. All promotional materials are printed on Forest Stewardship Council (FSC) certified paper, which means that the paper has been produced from sustainable forest sources. KfW uses paper bearing the FSC mixed sources label, which includes a certain volume of recycled paper.

Waste and recycling

Waste generated by the KfW Group is collected, and to a large extent recycled, by authorised and, where applicable, legally certified waste management companies. Since 2011, all public procurement contracts require waste transport distances to be kept to a minimum. The proportion of recycled waste fell from 93% to 75% in the reporting period (see table). This was essentially the result of increased volumes of sludge from the canteen sewage treatment facilities due to technical modifications. The total volume of waste recycled rose slightly during the reporting period. ■

The women and men on our staff

The success of KfW Bankengruppe is dependent on the skills and dedication of our staff. Our human resources policy is built around providing a wide range of measures and products that will systematically help our staff as best possible to perform their work effectively and in a structured manner. In order to recruit and retain staff, KfW Bankengruppe offers an attractive and healthy working environment and provides vocational training. The bank takes its social responsibilities seriously and understands that it needs to respond to growing competition for future generations of talented workers. KfW Bankengruppe is particularly concerned to ensure that staff have a healthy work-life balance.

Personnel structure and expenditure

As at 1 December 2011, KfW Bankengruppe – KfW, KfW IPEX-Bank and DEG – had 5,063 employees (see table). Most staff are employed in Germany. The Group's personnel expenses came to EUR 461 million in 2011. This figure included salaries (EUR 378 million) and pension provisions (EUR 34 million). In 2011, 290 staff worked in KfW's 62 foreign locations, mostly in developing and emerging countries, and 70 of them were on secondment.

Vocational and further training

Recruiting and promoting junior staff is essential to the Group's future success. Recognised training schemes that give young people access to professional life also contribute to social development. The Group's training is needs-based. We also provide training for severely disabled young people, with a suitably adapted application process. The proportion of trainees at KfW has remained

Breakdown of KfW Group staff

	2009	2010	2011
Total workforce¹⁾			
KfW Group ²⁾	4,578	4,816	5,063
KfW	3,568	3,777	4,010
KfW IPEX-Bank	525	535	531
DEG	450	482	505
Employees covered by collective wage agreements (%)			
KfW ³⁾	28.2	27.6	28.6
KfW IPEX-Bank ⁴⁾	16.0	12.8	16.5
DEG ⁵⁾	31.6	30.3	30.2
Employees with fixed-term contracts (%)			
Group	12.2	13.2	13.9
KfW	12.2	13.6	13.9
KfW IPEX-Bank	6.5	3.6	7.5
DEG	17.7	19.5	20.5
Part-time staff (%)			
KfW	18.1	18.9	20.2
KfW IPEX-Bank	8.6	11.2	12.4
DEG	0.2	0.2	8.6
Staff costs (EUR in millions)	404	448	461

¹⁾ All figures quoted in this chapter are taken from the bank's HR statistics as at 1 December.

²⁾ Including Finanzierungs- und Beratungsgesellschaft mbH (FuB; fully owned by the bank) and consolidated companies

³⁾ Including employees paid on an hourly basis, excluding vocational trainees

⁴⁾ Including graduate trainees

⁵⁾ Excluding vocational trainees and interns

Source: KfW, KfW IPEX-Bank, DEG.

Length of service and turnover

Average length of service (years)	2009	2010	2011
KfW	11.8	11.7	11.4
KfW IPEX-Bank	7.2	7.7	7.8
DEG	10.5	10.3	10.4
Employee turnover (%)			
KfW ¹⁾	2.6	2.2	3.3
KfW IPEX-Bank ¹⁾	3.2	5.1	12.8 ²⁾
DEG ³⁾	7.2	6.4	3.9

¹⁾ Excluding fixed-term contracts

²⁾ In 2011, 38 employees were transferred to KfW.

³⁾ Including fixed-term contracts

Source: KfW, KfW IPEX-Bank, DEG.

constant at around 6% over recent years (see table on page 28). There are four options for young people starting work with the bank:

- Vocational training for school-leavers who wish to become bank clerks or

office administrators. As of 2012, the bank also offers training in business informatics.

- Sandwich degree courses allow students to combine vocational training at the bank and a degree. ►



Vocational and further training

Proportion of trainees (%)	2009	2010	2011
KfW ^{1), 2)}	6.1	6.2	5.7
KfW IPEX-Bank ³⁾	3.8	1.5	3.8
DEG ³⁾	5.8	6.4	8.1
Further training ⁴⁾ in hours	47,200	47,200	47,200
KfW ⁵⁾	4,056	4,440	5,984
DEG			

¹⁾ KfW maintains records for both KfW and KfW IPEX-Bank centrally.

²⁾ Vocational trainees, sandwich degree students, graduate trainees and interns

³⁾ Graduate trainees and interns

⁴⁾ Excluding KfW IPEX-Bank as the reporting system is still in the development phase

⁵⁾ All reported figures have been rounded.

Source: KfW, KfW IPEX-Bank, DEG.

- The Group's 15-month graduate trainee programme introduces graduates to a variety of different areas.
- Undergraduates can take up an internship for between two and sixth months, which provides an introduction to the bank as part of their studies. The selection process ensures that all applicants meet the requirements for an internship. Remuneration for interns is based on the salary given to first-year vocational trainees.

All bank employees have access to a wide range of internal further training courses throughout their career. Management

training, interpersonal and communication skills, language courses and advanced technical training were the training priorities during the period under review. Further training at KfW accounted for an average of 47,200 hours each year from 2009 to 2011 (see table). External providers are used to address specific advanced training needs.

In the light of demographic changes, KfW and KfW IPEX-Bank introduced a succession management system for senior managers in 2009, with DEG following suit in 2010. The aim is to systematically identify and monitor

talented employees within the bank. All managers in the KfW Group must have successfully completed the relevant assessment training for team managers and department heads.

Remuneration system

KfW, KfW IPEX-Bank and DEG are governed by the collective bargaining agreement for public and private banking. There are different rules on performance reviews and remuneration for employees who are not covered by collective wage agreements. Men and women employed by the bank receive equal pay. Employees are classified in different job grades in accordance with their functions, qualifications and responsibilities.

Remuneration of employees who are not subject to collective bargaining agreements is governed by the respective salary and remuneration company agreements. Variable remuneration is based on structured performance objectives and performance reviews. Performance is measured against qualitative and quantitative targets. Annual performance payments are defined by the Executive Board and the relevant management boards.

Outstanding performance by KfW and KfW IPEX-Bank employees who are subject to collective bargaining agreements is rewarded using a budget set aside by the Executive Board for one-off payments. All Group staff seconded abroad receive additional compensation for the duration of their posting that reflects the local economic and security conditions.

Working conditions and social security contributions

In Germany, employee working hours are governed by the collective agreement on regular working hours; annual leave entitlements are also defined in the collective bargaining agreement. A small number of local staff are employed in the bank's foreign offices, alongside seconded staff. A guideline states that social security contributions and working hours should comply with the statutory national requirements. It also states that a benchmark provision level for social insurance must be in force that is comparable with that provided as a minimum by other international companies active in the country.

Permanent employees acquire occupational pension rights for the duration of their service within the Group. Employees are also entitled to make voluntary contributions to the pension scheme from their salary. In Bonn and Cologne, employees who use the public transport system are given a free local public transport pass. In Frankfurt and Berlin, the bank covers the cost of an annual season ticket for each employee's commute. Other benefits provided by KfW Bankengruppe include occupational and personal accident insurance, and access to low-interest consumer and construction loans for permanent staff.

Worker representation

The German Federal Personnel Representation Law (Bundespersonalvertrittungsgesetz – BpersVG) governs worker representation within KfW. KfW has a General Staff Council and three local staff councils in Frankfurt, Bonn and Berlin. The General Staff Council represents the interests of all employees concerning decisions, regulations or agreements that affect all locations. The

Council meets once every four weeks. In accordance with the German Works Council Constitution Act for private law companies, both KfW IPEX-Bank and DEG have their own works councils. As the institutions are subject to different legislative acts, it is not possible to have a joint works council for the whole Group.

KfW must comply with the notice periods laid down in the Federal Personnel Representation Law while the notice periods for KfW IPEX-Bank and DEG are set out in the Works Council Constitution Act. The relevant representative bodies are involved in change management consultations from an early stage. In accordance with the ILO core labour standards and the German Constitution, all group employees are entitled to join a trade union. In response to the German Federal General Equality Act (Bundesgleichstellungsgesetz – BGleG), KfW instituted an equal opportunities officer elected by female staff to address gender equality issues in 2001.

Employee satisfaction and engagement

As stated in the KfW Bankengruppe management and leadership principles, the bank is committed to creating a corporate culture based on openness and trust which rewards performance and takes social concerns into account. Regular discussions between managers and employees are a vital element in management and cooperation. The regular employee review is a cornerstone of performance and cooperation: the review gives employees an opportunity to discuss their career prospects with their line manager. Since 2010, the Executive Board hosts quarterly events at the bank's key locations in order to give staff a forum in which to raise questions.

KfW's staff are also invited to submit annual feedback on their line manager. At the end of 2010, the bank launched the "Blickwechsel" (change of perspective) feedback tool. KfW and KfW IPEX-Bank managers also have the option of obtaining structured feedback from employees, line managers, colleagues or customers (360° feedback, and 180° feedback respectively at DEG since

2012). The feedback and accompanying team workshop are an integral part of staff development.

The management feedback system is designed primarily to enhance management skills and improve collaboration with team members. The scheme has become even more important now that it has been made an essential requirement for promotion with KfW Bankengruppe.

»»» 2012

KfW IPEX-Bank was again awarded the title of "Top Employer".

In 2009 and 2012, KfW IPEX-Bank took part in the "Top Employer" awards organised by the Düsseldorf-based CRF Institute, winning awards both times. KfW has plans to introduce a regular employee satisfaction survey. The first survey is scheduled for late 2012.

KfW has run the KfW Compass Competition since 2002. The competition is designed to canvass employees' ideas on how to improve the bank, including its approach to social and environmental issues. All staff are invited to submit proposals for improving work processes, products and services. The submissions are examined by an internal competition committee in consultation with the relevant units. Prizes reflect the benefits for KfW. KfW IPEX-Bank and DEG also have systems for gathering employees' proposals for improvements.

Work-life balance

The concept of work-life balance is translated into practice at the KfW Group. All employees are able to make use of a wide variety of part-time working options, including managers. For example, job shares can be set up to divide a managerial role between two people. In 2011, 20% of all KfW employees were employed on a part-time basis (see table on page 27), 84% of them women and 16% men. ▶

>>> 20 % of all KfW employees worked part-time in 2011.

Back in 2001, KfW became one of the first German companies to be certified by the Hertie Foundation, a charitable organisation that conducts work-life balance audits. In 2010, the bank successfully passed its third audit, which included an employee questionnaire that was completed by just under half of KfW and KfW IPEX-Bank staff. The results showed that the bank offers an exceptionally family-friendly working environment. The flexible working hours were rated particularly highly, although employees were critical of high levels of pressure. DEG obtained its first work-life balance certificate in 2012.

Under the relevant works and company agreements, KfW and KfW IPEX-Bank employees are entitled to apply for a period of leave for the purpose of childcare, family care or further studies. A separate agreement, which was renewed for a further three years in 2010, sets out the rules for flexitime and home working. The Frankfurt office has had its own kindergarten facility since 1973. Financial support has been given to a nursery provider since 2004, which opened another nursery facility in autumn 2011. In 2012, the bank conducted an employee survey on childcare needs in other KfW locations, the results of which are currently being evaluated.

Gender equality

KfW Bankengruppe is not only committed to gender equality on paper. The aim is to create a culture where equal opportunities and gender equality are a reality. This entails improving the working environment and corporate culture and actively supporting female employees.

In response to the Federal General Equality Act, KfW appointed its first equal opportunities officer in 2002 and adopted the first Equal Opportunities Plan one year later. The third Equal



Gender balance: KfW promotes equal opportunities and gender equality.

Opportunities Plan has since been approved by the Executive Board in 2011 and will take effect by 2015. The targets set out in the plan include establishing a gender balance culture within the Group to promote effective equal opportunities and gender equality. This means scrutinising established behaviour patterns and implementing any cultural changes that are needed. Defining a gender balance strategy will entail gathering information about the current corporate and working culture through workshops and employee surveys. KfW IPEX-Bank and DEG are also involved in defining the KfW gender balance strategy and supporting the accompanying cultural change.

Other key objectives in the new Equal Opportunities Plan include significantly increasing the number of women in management and senior advisory

roles, continued support for women by expanding the range of coaching and mentoring programmes, and developing existing work-life balance schemes.

In 2011, 27% of managers at KfW were women (see table on page 31). Almost half of all KfW employees were female, indicating that women are currently still under-represented in management positions. One of the six Executive Board members is a woman, and women make up 14% of the Board of Supervisory Directors.

Under the current KfW Equal Opportunities Plan, women should occupy one in three management and senior positions by mid-2015. The plan also stipulates that at least one woman must be involved in all recruitment processes and decisions, either as a decision-maker or as an observer.

Share of women employed by KfW Bankengruppe

	2009	2010	2011
Share of women employed within KfW Bankengruppe (%)			
KfW	49.4	49.5	49.6
KfW IPEX-Bank	46.1	46.9	47.1
DEG	45.9	50.2	51.2
Women in management positions (%)			
KfW ¹⁾	26.6	26.4	27.0
Middle management ²⁾	14.1	18.9	23.6
Senior management ³⁾	13.6	14.3	13.0
KfW IPEX-Bank ⁴⁾	18.7	19.5	24.0
Middle management ²⁾	19.0	21.1	22.2
Senior management ⁵⁾	20.0	20.0	25.0
DEG ⁶⁾	14.0	14.3	26.5
Middle management ²⁾	20.0	17.6	30.8
Senior management ³⁾	0	0	10.5

¹⁾ Team managers, department heads, business area managers

²⁾ Department heads

³⁾ Business area managers

⁴⁾ Team managers, department heads and Management Board

⁵⁾ Management Board

⁶⁾ Department heads, business area managers

Source: KfW, KfW IPEX-Bank, DEG.

In 2011, KfW again exceeded the statutory minimum for employees with severe disabilities, who made up 5.5% of all staff (see second table). However, the proportion of staff with severe disabilities varies considerably across the Group, coming in at 1.1% for KfW IPEX-Bank and 3.6% at DEG. The numbers for KfW IPEX-Bank are particularly low because, under various service level agreements, KfW is responsible for a number of tasks that are typically performed by staff with severe disabilities. There are plans to work with the German Integration Office when suitable vacancies arise at KfW IPEX-Bank.

Health and safety at work

As part of its responsibilities as an employer and in the interest of effectiveness, KfW Bankengruppe has a preventative approach to health management. The approach is based on making work and the workplace safe for people, eliminating hazards in the workplace, and preventing accidents. With retirement ages rising in tandem with increasing workloads, these activities need to be stepped up.

At the end of 2010, KfW and KfW IPEX-Bank conducted an employee survey on health and safety at work: 45% of staff responded. The survey found that although workloads are heavy, staff are generally satisfied with the health management structure. The results of the survey will be taken into account by the Health Working Group when developing future measures. ▶

Employees with disabilities

	2009	2010	2011
Employees with severe disabilities (%)			
KfW	5.8	5.6	5.5
KfW IPEX-Bank	1.1	1.1	1.1
DEG	4.4	4.1	3.6

Source: KfW, KfW IPEX-Bank, DEG.

As private companies, KfW IPEX-Bank and DEG are not bound by the Federal General Equality Act. KfW IPEX-Bank has voluntarily committed itself to work towards gender equality and began organising regular discussions and presentations for women in 2012. DEG has an equality strategy which encompasses integrating gender issues into management development programmes and increasing the number of women in management positions.

bank's complaints office, which was set up in 2006.

Since 2007, all KfW and KfW IPEX-Bank managers and staff have been required to complete a computer-based training module on preventing discrimination. In 2003, KfW launched the "Fair play at work" strategy, which is designed for use in conflict resolution at work.

Diversity and equal opportunities

KfW Bankengruppe is committed to diversity and equal opportunities: no individual may be discriminated against on grounds of nationality, ethnicity, gender, religious beliefs, world view, disability, age or sexuality. Any employees who feel that they have been the subject of discrimination due to one of these reasons as defined in the German General Equal Treatment Act (Allgemeines Gleichbehandlungsgesetz – AGG) are entitled to lodge a complaint with the

Accidents at work in KfW Bankengruppe in Germany

	2009	2010	2011
KfW Bankengruppe	68	99	93
- fatalities	0	0	0

Source: KfW, KfW IPEX-Bank, DEG.

Age distribution of employees

	2009	2010	2011
Average age			
KfW	41.8	41.8	41.9
KfW IPEX-Bank	38.3	39.0	38.8
DEG	42.5	42.6	42.6

Source: KfW, KfW IPEX-Bank, DEG.

All KfW, KfW IPEX-Bank and DEG locations in Germany have company doctors and counsellors. All employees are eligible for an annual flu shot. Employees who have to travel as part of their job or work abroad are given immunisations and a personal medical travel kit.

Employees can attend health training courses on subjects ranging from back awareness, to stress management techniques and nutritional advice. KfW also offers seminars on preparing for retire-

ment. Employees can avail themselves of a variety of corporate sports activities in the different locations. In July 2011, KfW and KfW IPEX-Bank took on a dietician, who has begun by considering how to improve the canteen food, such as by using more organic produce.

KfW, KfW IPEX-Bank and DEG all have a health and safety management system comprising health and safety officers, committees that meet regularly, and safety technicians. All these staff con-

stantly analyse hazards in the workplace and implement measures to reduce pressure in the workplace. In 2011, a bank-wide working group was set up to look at security abroad. The group aims to develop standard processes to minimise risk for staff abroad. In October 2011, the working group issued a working instruction entitled "Guidelines for Personal Security when Working Abroad". The group is currently developing an online training module. ■



Healthy eating: a KfW staff canteen

Society

Business activities and social responsibility go hand in hand. This is especially true for KfW, given its legal mandate to drive economic and social change and improve quality of life.
As a corporate citizen, KfW's actions extend beyond its banking activities: to the cities where it has offices, across Germany and around the world.

Social commitment strategy and priorities

The Group classifies all social commitments undertaken under corporate social responsibility as either being a good neighbour or a corporate citizen. All activities are focused around acting responsibly, whether in terms of the environment or social, economic or cultural life.

>>> EUR 1.4 million spent by KfW on corporate citizenship activities in 2011.

The bank uses sponsorship, donations and other measures to support initiatives that promote, facilitate or put corporate social responsibility into action. Our own flagship projects are developed through carefully selected responsibility partnerships. The bank's social commitments are linked to our four strategic priorities: environment and climate; social commitment; responsible entrepreneurship; and art and culture. From 2013, all of KfW's social commitments will be brought under the auspices of a foundation, with the aim of consolidating and expanding existing activities. In future, the impact of all social commit-

KfW's corporate citizenship expenditure 2009–2011

	2009	2010	2011
	EUR 2.02 million ¹⁾	EUR 2.13 million	EUR 1.42 million

¹⁾ Excluding employee donations; source: KfW.

ments will also be systematically evaluated. In 2011, the corporate citizenship budget excluding employee donations came in at EUR 1.4 million (see table).

Preserving biodiversity

In the natural world, local actions often have global repercussions, while global developments can influence local conditions. KfW wants to raise awareness about this cause and effect relationship and show how individuals can contribute to preserving biodiversity. In 2011, KfW launched the flagship "Preserving biodiversity" project, which is designed to demonstrate the existential benefits of climate and environmental protection and resource conservation, while also improving the understanding of causes and effects. In conjunction with its partners, the bank wants to make the general public more environmentally aware and demonstrate how everyone can help to protect the environment.

KfW has transformed the roofs and gardens of the Frankfurt offices into a habitat for honey bees and wild bees. In doing so, it is supporting the "Frankfurt summit" (Frankfurt is humming) project organised by the Foundation for Humankind and the Environment, which is working to protect wild bees and raise awareness about city beekeepers in Germany.

The Senckenberg Natural History Museum in Frankfurt is sponsored by KfW and documents changes in flora, fauna and habitats over long periods.

The museum also provides information on the consequences of biodiversity losses. Using modern research techniques, the museum has made Frankfurt an international centre of excellence for biodiversity.

The bank also supports the annual "Experiencing biological diversity" week in conjunction with its partners in the BioFrankfurt network. KfW has concluded a partnership with Frankfurt Zoo to raise public awareness of responsible attitudes to the environment and natural resources. The bulk of the financing provided by the bank goes into the zoo's educational activities on species conservation and the environment.

Further afield, KfW finances training for female rangers at the Southern African Wildlife College. The rangers protect endangered animals and landscapes in the international Kavango-Zambesi Transfrontier Conservation Area (KAZA TFCA) in southern Africa. The bank supports the park, a joint Peace Park Foundation and WWF initiative, on behalf of the German Federal Ministry for Economic Cooperation and Development (Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung – BMZ).

Encouraging social engagement among its staff

Many associations, organisations and initiatives would be unable to survive without input from volunteers. At KfW, our employees are encouraged to get ▶

involved in charity work. A group-wide CSR platform was launched on the Intranet in 2010. The platform contains details of projects that employees are involved in, which range from initiatives close to home to programmes in distant regions and countries.

KfW Bankengruppe provides support for all projects listed on the platform in the form of a one-off donation. Each year, employees vote for the top five volunteer projects among all those presented over the course of the year. These are then honoured in a special award ceremony during a charity dinner.

In the period under review, one Frankfurt employee was awarded a prize for his work as a volunteer and board member of Mango e.V., which organises medical programmes in Guinea. Another award went to a KfW employee from Bonn who is a volunteer in the tandem4you association. The association provides mentors for schoolchildren aged 15 and older as they look for work and vocational training opportunities.

DEG's vocational trainees are involved in managing Auf Achse, a not-for-profit organisation which provides advice, care and accommodation for children, young people and families in difficulties. In

September 2012, around 50 DEG staff will take part for the first time in two new projects organised by the Cologne volunteer agency.

Cultural sponsorship in our key locations

Cultural diversity is an expression of a multicultural and critical civil society. With budgets tight, municipalities are often no longer able to maintain that diversity on their own. In its key locations, KfW supports a wide range of selected cultural projects. These range from external events to existing and new projects within the bank. In future, projects will focus more on social and societal elements in art and intercultural exchange.

KfW supports one of the few privately-owned theatres in Germany: the Stalburg theatre in its hometown of Frankfurt. In Berlin, the bank is the main partner of Young Euro Classic (YEC), an international summer festival for youth symphony orchestras. In Bonn, KfW supports the Videonale art festival and the Bonner Kunstverein (art association). In Cologne, DEG supports the Rautenstrauch Joest Museum, the Bauturm theatre and the biannual New Talents art exhibition, a launch pad for new visual and creative artists and media designers.

DEG is also co-sponsoring the lit.Cologne international literature festival between 2011 and 2013. There are plans to renew the partnership after 2013. KfW IPEX-Bank is also involved in cultural sponsorship in the form of support for the Rheingau music festival.

>>> 2011

marked the start of
DEG's sponsorship
of the lit.Cologne
international
literature festival.

In the 1970s, KfW began collecting visual art works, mainly concrete art, optical art and contemporary art. The bank has also been involved in a variety of public art projects. The artwork is displayed in the Group's offices where they can be viewed by the general public. In 2009, KfW modernised its head office in Frankfurt. This included installing a piece of art by Thomas Bayrle. The piece is called Network and uses the letters k, f and w as the starting point for a huge installation covering the walls and



Working to preserve biodiversity: the beekeeper's path along the staircase in the main KfW building in Frankfurt explains the vital role that bees play in the ecosystem.



Information and action: Sophie Himmelreich (beekeeper), Dr Norbert Kloppenburg (member of the KfW Executive Board) and Dietmar Schmid (President of the Senckenberggesellschaft für Naturforschung) at the KfW Bee Day 2011.

floor of the entrance foyer. KfW also supported the “Ruhr 2010 – European Capital of Culture 2010” by financing an art installation on Lake Baldeney in Essen.

The history of KfW and the KfW subsidiaries is documented in the Historical Group Archive in Berlin, which can also be consulted by historical and scientific researchers. As part of the German “Tag des offenen Denkmals” (open day for public monuments under the European Heritage Days scheme), KfW opened the listed bank building in Berlin to the public in 2010 and 2011.

With a view to sharing experience in cultural sponsorship and developing future arts and business partnerships, KfW is a member of the Cultural Sponsorship working group (AKS). The working group was set up by the Kulturreis der deutschen Wirtschaft im BDI e.V. (Association of Arts and Culture of the German Economy at the Federation of German Industries), a collaborative association of 70 companies.

Supporting responsible entrepreneurship

Forward-looking business models require capital, but also expertise and a stimulating environment. In addition to our

start-up financing activities, the bank is committed to the transfer of knowledge and to creating a climate conducive to business start-ups. KfW supports the German Start-up Finance Research Foundation (Forschungsgemeinschaft Gründungsforschung – FGF) and sponsors the Chair in Entrepreneurial Finance at Munich Technical University (TUM). The Group mobilises and trains start-up owners through its support for five business plan competitions in Germany. More projects are in the pipeline.

In Africa, DEG plans to launch a collaboration with the Voices of Africa Media Foundation in 2013. The Foundation, which trains mobile reporters, aims to improve news reporting across the continent by making better use of mobile phone technologies, while at the same time giving young people the skills to earn a living.

Staff fundraising

KfW employees are able to set up a direct debit whereby the “spare” cents in their monthly pay packet are donated to charity. Individuals can decide whether to round down to the nearest euro or nearest 5 euros. At the end of the year, the bank donates the money collected to a number of charities chosen from among staff suggestions. In 2011, the

scheme collected EUR 25,660, which the Executive Board topped up to EUR 28,000.

»»» **EUR 25,660**
were donated by KfW
employees in 2011
under the “Rest Cent”
(spare change) scheme.

There are also long-standing charity fundraising events, such as the annual Staff Council Christmas donation and the Executive Board Christmas donation, which both go to a different charity each year. Raising funds for the German Multiple Sclerosis Society has become a tradition, as has the associated celebratory event held at KfW for MS sufferers. ■



Cultural sponsorship in our key locations: Dr Günther Bräunig (Executive Board member) presents the Videonale prize.



Promoting young musicians: KfW is the main partner of the international Young Euro Classic festival.

Glossary

Biodiversity

Biodiversity encompasses species, genetic and ecosystem diversity. Various factors, particularly the continued destruction and fragmentation of natural habitats, are threatening the existence of many species and also entire ecosystems. A number of international agreements on protecting biodiversity have been concluded since the 1990s, including the United Nations Convention on Biodiversity, which was adopted in 1992.

Compliance

Compliance means that organisations adhere to legislation and regulatory standards together with any additional self-imposed standards and requirements. For banks, compliance specifically includes observing the provisions of the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG).

Corporate citizenship

Corporate citizenship is one facet of corporate social responsibility. The term refers to a company's commitment to acting as a good citizen – working to address social issues. Corporate citizenship includes charitable donations, sponsorship, foundations and encouraging individual employees to become involved in volunteer work.

Corporate governance

Corporate governance encompasses the guidelines, codes and procedures that constitute the framework for company management and monitoring. These requirements tend to be enshrined in legislation or stipulated by the company owners. The supervisory board and company management define the content of all such guidelines.

Corporate social responsibility

Corporate social responsibility (CSR) refers to voluntary efforts on the part of businesses to contribute to sustainable development. The concept was first defined by political decision-makers in 2001 in the European Commission's Green Book. The concept provides a basis for companies to integrate social and environmental concerns into their business activities and relations with stakeholders.

Diversity

Diversity describes the externally visible or subjective differences found among a company's employees, such as gender, age, disabilities, sexual orientation, religious beliefs and lifestyle choices. Companies that are committed to encouraging diversity undertake to acknowledge the differences in their staff and to value them.

Equator Principles

The Equator Principles are a voluntary set of standards that banks have defined in order to apply social and environmental standards to project finance. The standards are based on environmental and social standards defined by the International Finance Corporation (IFC), a subsidiary of the World Bank.

European Recovery Programme

The European Recovery Programme (ERP) was the US reconstruction plan adopted for Western Europe after the Second World War. All resources destined for German economic reconstruction were subsequently put aside into an ERP Special Fund administered by the German Federal Government. The fund has been managed by KfW ever since the bank was founded in 1948.

Extractive Industries Transparency Initiative

The Extractive Industries Transparency Initiative (EITI) aims to improve transparency in the extractive industries and combat corruption in developing countries. Details of payments made by extraction companies to national governments are published.

Financial cooperation

Financial cooperation is an essential component in the German Development Cooperation toolkit. Financial cooperation seeks to make lasting improvements to living conditions for people in emerging and developing countries and to protect the climate. In the 1960s, the German Federal Ministry for Economic Cooperation and Development (BMZ) gave KfW Entwicklungsbank a mandate to carry out financial cooperation on behalf of the Ministry.

Gender balance

Gender balance means equal numbers of men and women in all areas of life, including working life. Companies can achieve equality through supportive measures and by eliminating existing barriers.

Global Reporting Initiative

The Global Reporting Initiative (GRI) is a non-profit organisation which was set up in 1997 in partnership with the United Nations Environment Programme (UNEP). The GRI develops guidelines for sustainability reporting with the aim of promoting transparency, standardisation and comparability in sustainability reports.

Carbon neutrality

Carbon neutrality means preventing, minimising and offsetting greenhouse gas emissions. Emissions from companies, municipalities and private households that cannot be prevented even after implementing all possible technical and economic measures can be offset voluntarily by supporting third-party climate protection projects.

Sustainability rating

Companies are given a sustainability rating based on their sustainability performance and holistic, forward-looking corporate governance. Investors take the ratings into account when selecting investments on the basis of value and risk. The ratings are usually produced by specialist rating agencies.

Stakeholders

Stakeholders are individuals or groups of individuals with an interest in how a company acts and evolves. This interest may be linked to economic, environmental or social considerations. Stakeholders can include customers, shareholders, investors, employees, municipalities and non-governmental organisations.

UNEP Finance Initiative

The UNEP Finance Initiative (UNEP FI) is a public-private partnership between the United Nations Environment Program (UNEP) and the private financial sector. The Finance Initiative is designed to promote the integration of environmental and social issues in financial sector services. This includes encouraging private sector investment in green technologies and services.

UN Principles for Responsible Investment

The UN Principles for Responsible Investment were developed by international investors in conjunction with the United Nations. They provide a framework that allows environmental, social and governance issues to be factored into investment decisions.

PWC Report

Independent Assurance Report

PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft had performed a limited assurance engagement on the German version of the Sustainability Report and issued an independent assurance report, authoritative in German language, which has been translated by KfW Bankengruppe as follows:

To KfW Bankengruppe, Frankfurt am Main

We have been engaged to perform a limited assurance engagement on the Sustainability Report 2012 produced by KfW Bankengruppe, Frankfurt am Main (hereafter referred to as KfW) which covers the calendar years 2009, 2010 and 2011.

Management's responsibility

The legal representatives of KfW Bankengruppe are responsible for the preparation of the Sustainability Report in accordance with the criteria of the Sustainability Reporting Guidelines Vol. 3 (pages 7-17) of the Global Reporting Initiative (GRI):

- materiality
- stakeholder inclusiveness
- sustainability context
- completeness
- balance
- clarity
- accuracy
- timeliness
- comparability
- reliability.

This responsibility includes the selection and application of appropriate methods to prepare the Sustainability Report and the use of assumptions and estimates for individual sustainability disclosures that are plausible given the circumstances. This responsibility also included designing, implementing and maintaining systems and processes relevant for the preparation of the Sustainability Report.

Practitioner's Responsibility

Our responsibility is to express an opinion based on our work performed as to whether any matters have come to our attention that cause us to believe that the Sustainability Report in all material issues has not been prepared in accordance with the GRI Sustainability Reporting Guidelines Vol. 3 criteria (pages 7-17). We have also been engaged to make recommendations, based on the findings of our work, on how to further improve the sustainability management system and sustainability reporting.

We conducted our work in accordance with the International Standard on Assurance Engagements (ISAE) 3000. This standard requires that we comply with professional standards and plan and perform the assurance engagement so that we are able to express our opinion with limited assurance.

In a limited assurance engagement the evidence-gathering procedures are more limited than in a reasonable assurance engagement (such as an annual report audit pursuant to Article 317 of the German Commercial Code [Handelsgesetzbuch – HGB]), and therefore less assurance is obtained than in a reasonable assurance engagement.

The procedures selected depend on the practitioner's judgment. Within the scope of our work we performed amongst others the following procedures:

- Inquiries of employees in the central unit responsible for preparing the Sustainability Report and inspection of the documentation pertaining to the sustainability strategy, programme and management as well as stakeholder engagement;
- Inspection of defined procedures and documentation on gathering, analysing, processing, verifying and disseminating sustainability data, and testing this data using random samples, including internal documents, process and control documentation and data generated in the form of reports by IT systems;
- Comparison of selected data with corresponding data in the Financial Report for 2009, 2010 and 2011 of the company.

Conclusion

Based on our limited assurance engagement, nothing has come to our attention that causes us to believe that the material quantitative data in the Sustainability Report have not been prepared in accordance with the criteria of the GRI Sustainability Reporting Guidelines Vol. 3 (pages 7-17).

Frankfurt am Main, 9 November 2012

**PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft**

Michael Werner

ppa Dieter W. Horst

GRI content index

GRI index	Page	Compliance
1. Strategy and analysis		
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1.2 Key sustainability impacts, risks and opportunities	pages 4–7 pages 6–9	■
2. Organisational profile		
2.1 Name of the organisation	page 2	■
2.2 Primary brands, products and services	pages 4–7 page 8	■
2.3 Operational structure including business areas	page 9	■
2.4 Location of organisation's headquarters	page 7	■
2.5 Number and names of main countries where the organisation operates	page 27 page 7	■
2.6 Nature of ownership and legal form	page 7	■
2.7 Nature of markets served	page 7	■
2.8 Scale of the organisation	pages 5, 27 pages 2, 7	■
2.9 Significant changes to the organisational and ownership structure during the reporting period	page 2	■
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3.2 Date of previous report	page 2	■
3.3 Reporting cycle	page 2	■
3.4 Contact point	page 43	■
3.5 Process for defining report content	pages 2, 20–21	■
3.6 Boundary of the report	page 2	■
3.7 Any specific limitations on the scope of the report	page 2	■
3.8 Basis for reporting on joint ventures, etc	page 2	■
3.9 Data measurement techniques and the bases of calculations	pages 18, 19, 22	■
3.10 Any re-statements of information provided in earlier reports	pages 2, 5, 27 page 2	■
3.11 Changes in the themes covered and measurement methods applied	pages 2, 22	■
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4.2 Independence of the highest governance body (Board of Supervisory Directors)	page 13	■
4.3 Independence of members of the highest governance body for organisations that have a unitary board structure	not applicable, see page 13	■
4.4 Mechanisms for shareholders and employees to provide recommendations to the governing bodies	pages 13, 29	■
4.5 Linkage between senior management compensation and achievement of the organisation's sustainability targets	page 13	■
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4.7 Expertise of the board members on sustainability topics	page 13	■
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GRI index	Page	Compliance
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5. Performance indicators		
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EC2 Financial implications of climate change	pages 4–5 pages 12–21	■
EC3 Defined benefit plan obligations	pages 27, 29	■
EC4 Significant financial assistance received from the government	not applicable: promotional bank mandate, see pages 6–9	■
EC6 Spending on local suppliers	not relevant, see page 19	□
EC7 Senior management positions hired from local community	not systematically recorded at present	□
EC8 Infrastructure investments and services provided primarily for public benefit	pages 5–7 pages 34–39, 44–50	■
EC9 Understanding and describing the nature and extent of significant indirect economic impacts	pages 6–7	■
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EN1 Materials used by weight or volume	page 26	■
EN2 Percentage of materials used that are recycled input materials	page 26	■
EN3 Direct energy consumption	pages 23–24	■
EN4 Indirect energy consumption	page 23	■
EN5 Energy saved due to conservation and efficiency improvements	pages 22–24	■
EN6 Initiatives to provide energy-efficient products and services	pages 4–7 pages 12–21	■
EN8 Total water withdrawal by source	page 26	■
EN11 Land in or adjacent to protected areas	no property in protected areas	■
EN12 Impact on biodiversity in protected areas	page 33 pages 14–15, 20–21	■
EN16 Total direct and indirect greenhouse gas emissions	page 25	■
EN17 Other relevant indirect greenhouse gas emissions	page 25	■
EN18 Initiatives to reduce greenhouse gas emissions	pages 22, 24–25	■
EN19 Emissions of ozone-depleting substances	not applicable: no manufacturing output and all air conditioning in Germany uses state-of-the-art technology	□
EN20 NO _x , SO _x and other significant emissions	not applicable: no manufacturing output	□
EN21 Total water discharge by quality and volume	not applicable: no manufacturing output and no significant pollution generated	□
EN22 Total waste by type and disposal method	page 26	■
EN23 Significant spills	not applicable: no manufacturing output	□
EN26 Initiatives to mitigate environmental impacts of products and services	pages 16–18 pages 12–21	■
EN27 Percentage of product packaging materials that are reclaimed	not applicable: no packaging	□
EN28 Significant fines and sanctions for non-compliance with environmental laws and regulations	nil	■
Labour practices and decent work performance indicators and management approach	pages 11, 27	■
LA1 Data on total workforce	page 27	■
LA2 Employee turnover	page 27; not all of the Group reports gender and age breakdowns at present	□
LA4 Percentage of employees covered by collective bargaining agreements	page 27	■
LA5 Minimum notice periods regarding significant operational changes	page 29	■
LA6 Percentage of total workforce represented in formal health and safety committees that help monitor and advise on occupational health and safety programmes	page 32	■
LA7 Lost days, injuries and work-related fatalities	page 32; group-wide lost days not systematically recorded at present	□
LA8 Health care and counselling	pages 31–32	■
LA10 Average hours of training per year per employee by employee category	page 28; currently no group-wide system for recording data for each employee category	□
LA11 Programmes for skills management and lifelong learning	pages 28, 32	■

GRI index	Page	Compliance
LA12 Percentage of employees receiving regular performance and career development reviews	pages 28–29	■
LA13 Breakdown of governance bodies and employees by category and other diversity indicators	pages 31–32 2011 Annual Report, pages 129	■
LA14 Ratio of basic salary by gender and employee category	pages 28–29	■
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HR1 Investment agreements that include human rights clauses or have undergone human rights screening	pages 16–18	■
HR2 Suppliers that have undergone screening on human rights	pages 19–20	■
HR4 Incidents of discrimination and actions taken	During the reporting period all cases in which discrimination was suspected were examined; the result was that no incidents of discrimination occurred.	■
HR5 Freedom of association and collective bargaining	pages 16, 29	■
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SO2 Analysis of corruption risks	page 14	■
SO3 Anti-corruption training	pages 14–15	■
SO4 Anti-corruption actions	pages 14–15	■
SO5 Public policy development and lobbying	page 21	■
SO8 Fines and sanctions for non-compliance with laws and regulations	nil	■
Product responsibility performance indicators and management approach	pages 16–18	■
PR1 Life cycle stages in which health and safety impacts of products are analysed	pages 16–18	■
PR3 Product and service information	page 20	■
PR5 Practices related to customer satisfaction	page 20	■
PR6 Programmes for adherence to laws, standards and voluntary codes related to marketing communication, including advertising, promotion and sponsorship	KfW Group adheres to the principles of responsible, transparent and accessible communication. We avoid aggressive and misleading advertising and answer all questions addressed to us honestly.	■
PR8 Total number of substantiated complaints regarding breaches of data protection	page 15	■
PR9 Fines for non-compliance with laws and regulations concerning the provision and use of products and services	nil	■
Finance sector indicators		
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FS2 Processes for assessing and screening environmental and social risks within the core business	pages 16–18	■
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FS5 Dialogue with clients and other target groups regarding environmental and social risks and opportunities	pages 18–21, 30	■
FS6 Percentage of the business units' portfolios by region, size and sector	page 5	■
FS7 Monetary value of products and services with social benefits	pages 5–7	■
FS8 Monetary value of products and services with environmental benefits	pages 4–7	■
FS9 Coverage and frequency of audits to assess implementation of environmental and social policies	pages 16–18	■
FS10 Percentage and number of companies in the portfolio with which the reporting organisation has interacted on environmental or social issues	pages 5, 16–19	■
FS11 Percentage of assets subject to positive or negative environmental or social screening	pages 16–19	■
FS12 Voting policies applied to environmental and social screening	pages 18–19	■
FS13 Access to less populated or economically disadvantaged areas	pages 44–50	■
FS14 Initiatives to improve access to financial services for disadvantaged population groups	pages 44–50	■
FS15 Policies for the fair design and sale of financial products and services	page 20	■
FS16 Initiatives to enhance financial literacy by target group	page 20	■

Indicators shown in light grey are voluntary additional indicators.

Page numbers shown in blue refer to the "Our responsibility. Shaping social challenges" part of the report.

Compliance: ■ full □ partial □ no

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KfW Bankengruppe
Palmengartenstrasse 5–9
60325 Frankfurt am Main, Germany
Phone: +49 69 74310
Fax: +49 69 7431 2944
www.kfw.de

Contact for the Sustainability Report:

Dr Karl Ludwig Brockmann
Group Officer Environment and Sustainability
nachhaltigkeit@kfw.de

Dr Michael Helbig
Head of Communication
presse@kfw.de

Questions about ratings and rankings:
investor.relations@kfw.de

For further information on sustainability at KfW visit: www.kfw.de/sustainability

Order a printed copy:

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KfW Bankengruppe
Palmengartenstraße 5–9
60325 Frankfurt am Main
Germany
Phone: +49 69 7431-0
Fax: +49 69 7431-2944
infocenter@kfw.de
www.kfw.de

600 000 2604