

»» Corporate Governance Report 2014

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As a member of KfW Bankengruppe, DEG – Deutsche Investitions- und Entwicklungsgesellschaft mbH (DEG) has made a commitment to act responsibly and transparently, and open up its actions to scrutiny. The Management Board and the Supervisory Board of DEG accept the principles of the German Federal Government's Public Corporate Governance Code (PCGC) on behalf of DEG. A first Declaration of Conformity in respect of compliance with the PCGC's recommendations was made on 30 March 2011. A declaration and explanation of any departures from the code has been made annually since then.

DEG has operated as a legally independent, wholly owned subsidiary of KfW since 19 June 2001. Its rules and regulations (Articles of Association, rules of procedure for the Supervisory Board and its committees, and rules of procedure for the Management Board) specify the basic features of the system via which it is managed and controlled by its corporate bodies.

On 1 January 2014 the changes to the German Banking Act (KWG) provided for in the Transparency Directive Implementation Act (CRD IV) came into force. Due to its certificate of exemption, DEG is not required to comply with KWG Articles 25–38. However, DEG's rules and regulations have been voluntarily amended to bring them into line with the newly framed provisions of Article 25d of the Banking Act.

DEG's Articles of Association, the rules of procedure for the Management Board and the rules of procedure for the Supervisory Board and its committees have been revised accordingly. The new version came into force on 1 July 2014.

Declaration of Conformity

The Management Board and the Supervisory Board of DEG make the following declaration: "Since the last Declaration of Conformity on 26 March 2014, the recommendations of the Federal Government's PCGC, passed on 1 July 2009, have been and are being complied with, excepting only the recommendations below."

Deductible for D&O insurance

KfW has entered into D&O insurance contracts which, as corporate insurance, also extend protection to the members of DEG's Management and Supervisory Boards. In a departure from sub-paragraph 3.3.2 of the PCGC, these merely include an option to introduce a deductible. A decision on whether to exercise the option will be taken in consultation with the Chairman and the Deputy Chairman of KfW's board of Supervisory Directors.

Delegation to committees

The Supervisory Board is relieved of a portion of its workload by its committees, which benefit from greater familiarity with the issues and flexibility of scheduling. Where a matter cannot be referred to the Supervisory Board in cases under Article 10 Section 5 no. 4 of the Articles of Association (measures and transactions of special importance) because a quick decision is required, the Executive Committee is empowered to decide in place of the Supervisory Board in an individual case under Article 10 Section 8 of the Articles and in departure from the recommendations in sub-paragraph 5.1.8 of the code. This

prevents the company suffering any economic disadvantage due to an extended delay in such cases. The option did not come into play in 2014.

Responsibilities

With the agreement of the Supervisory Board and the shareholder, the Management Board has compiled a set of procedural rules relating to cooperation in managing the business. Under these rules, the Management Board alone lays down areas of responsibility in a schedule of responsibilities with the agreement of the shareholder, but – in a departure from paragraph 4.2.2 PCGC – without the additional agreement of the Supervisory Board. This is designed to ensure the necessary flexibility when changes are required, and hence an efficient division of labour.

Loans to members of corporate bodies

Under the rules of procedure for DEG's Supervisory Board and its committees, as well as for the Management Board, DEG is not permitted to grant individual loans to members of its Management and Supervisory Boards. However, to ensure equal treatment and in a departure from sub-paragraph 3.4 of the code, this ban does not apply to taking advantage of promotional loans made available through KfW programmes. Given the principle of delivery via the borrowers' banks, and because the granting of these loans has been standardised, these programme loans present no risk of conflicts of interest.

Cooperation of Management Board and Supervisory Board

The Management Board and the Supervisory Board work closely together for the benefit of DEG. The Management Board, especially its Chairman, maintains regular contact with the Chairman of the Supervisory Board. The Management Board discusses significant issues of corporate governance and strategy with the Supervisory Board. If an important cause arises, the Chairwoman or Chairman of the Supervisory Board informs the board and calls an extraordinary meeting if necessary.

In the year under review, the Management Board reported to the Supervisory Board as per the provisions of Article 90 of the German Stock Corporation Act (AktG) and provided comprehensive information on all relevant corporate issues related to planning, business development, risk situation, risk management and compliance as well as on changes to the economic climate that were of significance to the company.

Management Board

The members of the Management Board conduct DEG's business with the care of a fit and proper business person in accordance with the law, the Articles of Association, the rules of procedure for the Management Board, and the decisions of

the Shareholders' Meeting and the Supervisory Board. The allocation of responsibilities among members of the Management Board is regulated by the schedule of responsibilities.

In the year under review, the members of DEG's Management Board had the following areas of responsibility:

Bruno Wenn as Chairman of the Management Board:

- Corporate Management Division,
- Regions Division 1: Africa/Latin America,
- Sectors Division,
- Treasury,
- Internal Audit.

Dr Michael Bornmann:

- Regions Division 2: Asia/Europe (excluding Treasury),
- German Corporates/Programme finance,
- Legal and Compliance Division.

Philipp Kreutz:

- Finance/Risk Division,
- Credit Management/Analysis Division,
- In-House Services Division.

The members of the Management Board are committed to DEG's corporate interest, may not pursue their personal interests in decision-making, and are subject to a comprehensive non-compete obligation while acting for DEG. The members of the Management Board must immediately inform the shareholder of any conflicts of interest arising. No such case occurred during the year under review.

Supervisory Board

The Supervisory Board advises and monitors the Management Board as it manages DEG.

DEG has a voluntary Supervisory Board. Its membership is made up of representatives of the German Federal Government, the shareholder, the private sector, and civilian society.

Under DEG's Articles of Association, the Supervisory Board shall have a minimum of eight and a maximum of twelve members, of whom four shall be representatives of the German Federal Government – one each from the Federal Ministry for Economic Cooperation and Development, the Federal Ministry of Finance, the Federal Foreign office and the Federal Ministry of Economic Affairs and Energy – and two shall be representatives of KfW. The Chair of the Supervisory Board rests with the representative of the Federal Ministry for Economic Cooperation and Development. In the year under review, Parliamentary State Secretary Hans-Joachim Fuchtel held the office of Chairman. The Supervisory Board had two female members in the year under review.

At no time shall the Supervisory Board include more than two former members of the company's Management Board. Under a provision in force until 30 June 2014 no one already exercising five supervision mandates with an enterprise being supervised by the German Federal Financial Supervisory Authority was allowed to be appointed as a member of the Supervisory Board. Under a new provision which came into force on 1 July 2014, no person shall be appointed as a member of the Supervisory Board if they already serve as executive officer in another business and are also a member of either the management or supervisory body of more than two further businesses, or if they are already a member of either the management or supervisory body of more than three other businesses. The members proposed by the German Federal Government shall as a rule not exercise more than three mandates in supervisory bodies at any one time. Any conflicts of interest shall be disclosed to the Supervisory Board. During the year under review, there was one case in which conflicts of interest prevented participation in decisions of the Supervisory Board or its committees respectively.

One member of the Supervisory Board attended fewer than half of the meetings of the Supervisory Board in the year under review.

Committees of the Supervisory Board

In order to achieve efficiency in carrying out its tasks, the Supervisory Board has formed two committees. Pursuant to Article 25d of the Banking Act, their areas of responsibility were expanded with effect from 1 July 2014.

The Executive Committee is responsible for personnel matters and the principles of corporate governance as well as – where necessary – preparing for meetings of the Supervisory Board; it also takes pressing decisions on urgent matters. In addition, it deals with remuneration issues.

The Audit Committee is responsible for issues relating to accounting, risk management, the effectiveness of the internal control system and internal audit, as well as for preparations for assigning the auditors and setting priorities for the annual audit.

The committee chairs report regularly to the Supervisory Board. The Supervisory Board is entitled to reclaim the competences transferred to the committees at any time.

In its report, the Supervisory Board provides information about its own work and the work of its committees during the year under review. A summary listing the members of the Supervisory Board and its committees may be found on DEG's website.

Shareholder

DEG's sole shareholder is KfW. The Shareholders' Meeting is responsible for all matters not assigned, by law or by the Articles of Association, to another body as its exclusive responsibility; in particular for: approving the annual statements of accounts and the appropriation of the annual result or net income; determining the sum available within the company for variable remuneration components; appointing and relieving members of the Supervisory Board; discharging members of the Supervisory and Management Boards from their liability; and appointing the auditor of the annual accounts. Members of the Management Board require the prior agreement of the Shareholders' Meeting to conduct any negotiations at CEO level that exceed the scope of the company's ordinary operations.

Supervision

DEG is a credit institution within the meaning of Article 1 (1) of the Banking Act of the Federal Republic of Germany (KWG). The German Federal Financial Supervisory Authority (BaFin) has issued revocable exemptions to DEG as per KWG Article 2 Section 4, which partially exempt it from the provisions of the act. However, DEG does on the whole apply the relevant standards of the Banking Act mutatis mutandis, especially the minimum requirements for risk management (MaRisk).

Public benefit

Under Article 2 (1) of its Articles of Association, DEG exclusively and directly serves the public benefit purpose of promoting development cooperation as per Article 52 of the German Fiscal Code (AO). It operates altruistically within the meaning of AO Article 55.

Transparency

DEG makes key information about the company and its annual statements of accounts available on its website. The Communications Department also provides regular updates on current corporate developments. The annual Corporate Governance Reports, including the Declaration of Conformity in respect of the Public Corporate Governance Code PCGC, are permanently available on DEG's and KfW's websites.

Risk management

Risk management and risk controlling are key management tasks at DEG. The Management Board draws up the risk strategy, establishing the framework for business activities in relation to risk tolerance and risk capacity. This ensures that

DEG is able to maintain an acceptable risk profile while fulfilling its special tasks sustainably and over the long term. Monthly risk reports to the Management Board present a comprehensive analysis of the bank's overall risk situation. The Supervisory Board is regularly given a detailed update on the risk situation at least once per quarter.

Compliance

DEG's success depends to a significant degree on the trust which the shareholder, clients, business partners, staff members and the public place in its effectiveness and especially its integrity. This trust is rooted, in part at least, in the implementation of, and compliance with, the relevant legal and regulatory requirements and internal rules as well as other applicable laws and regulations. DEG's compliance organisation includes, in particular, provisions to ensure that data protection rules are followed, to guarantee securities compliance and prevent money laundering, the financing of terrorism and other criminal activities. Accordingly, there are binding regulations and procedures that influence day-to-day values and corporate culture; these are continuously updated to reflect the legal framework as well as market requirements. The tasks that fall under compliance also include regulatory compliance. Regular training on all aspects of compliance is available to DEG employees.

Accounting and annual audit

On 1 April 2014 DEG's shareholder appointed KPMG AG Wirtschaftsprüfungsgesellschaft as the auditor for the 2014 financial year. The Supervisory Board subsequently issued the audit mandate to KPMG on 1 September 2014 and established the priorities for the audit with the auditor. An agreement was reached with the auditor that the Chairman of the Supervisory Board would immediately be informed of any findings and circumstances of material significance to the duties of the Supervisory Board that might arise as the audit was being carried out. It was further agreed that the auditor should inform the Supervisory Board or include a note in the audit if facts were ascertained in the course of the audit which meant that the declaration of conformity with the PCGC contained an inaccuracy.

Efficiency review of the Supervisory Board

The Supervisory Board has to date regularly reviewed the efficiency of its activities. A two-year cycle had been agreed for these reviews. The most recent efficiency review of the Supervisory Board was carried out in 2013. Since voluntary compliance with the provisions of KWG Article 25d Section 11 became permissible as of 1 July 2014, the Supervisory Board now carries out an annual evaluation of both the Supervisory and Management Boards. The analysis of the evaluation of the Supervisory and Management Boards will be completed in the first quarter of 2015.

COMPENSATION REPORT

The compensation report describes the basic structure of the remuneration system for the Management Board and the Supervisory Board and discloses the individual remuneration for members of both boards. The compensation report is part of the appendix to the annual statements of accounts.

Remuneration of the Management Board

The remuneration system for DEG's Management Board is designed to provide appropriate compensation for board members in accordance with their remit and areas of responsibility, taking into account their performance and the company's success.

Remuneration components

On 26 March 2014 DEG's Supervisory Board voted to retain without change the remuneration system for DEG's Management Board agreed on 18 March 2010. This system meets PCGC rules on variable remuneration components and includes a balanced mix of short- and medium-term incentives. For instance, only half of performance-related management bonuses, as measured by the meeting of targets, is immediately paid to the Management Board; the other half only constitutes a provisional claim and is paid from a "bonus account" in equal instalments over the following three years, provided business

Compensation for the Management Board and members of the Supervisory Board

EUR thousand	2014	2013	Change
Management Board	1,318	1,317	1
Previous members of the Management Board & surviving dependants	761	744	17
Members of the Supervisory Board	21	11	10
Total	2,100	2,072	28

performance has not declined substantially. If the agreed profitability target is not met in subsequent years, payments from the bonus account shall be subject to a penalty.

The following summary shows total compensation broken down by fixed and variable components and benefits in kind, as well as transfers to pension provision for individual members of the Management Board and the balance of their bonus accounts.

Responsibility

The shareholder discusses the remuneration system for the Management Board, including contractual elements, and reviews it regularly. The shareholder agrees the remuneration system following consultation with the Supervisory Board. The adequacy of the remuneration was most recently reviewed in March 2014.

Benefits in kind

Benefits in kind primarily include contractual fringe benefits. Members of the Management Board are entitled to a company car and driver for both business and personal use. In new contracts, the entitlement to a driver is no longer part of the contractual agreement. Under current tax regulations, any costs incurred as a result of personal use of the company car and driver are met by the members of the Management Board. If a second residence is required for business purposes, the costs of running a second household are reimbursed as per tax regulations.

Members of the Management Board are insured under a group accident insurance policy. Health and long-term care insurances are subsidised. In respect of the risks associated with their management activities on the governing bodies, members of the Management Board are insured under a policy that covers their liability for monetary damages (D&O insurance) and a supplementary policy covering them for monetary damages and legal expenses. These insurance policies are designed as group insurance.

At present, no deductible has been agreed. Members of DEG's Management Board are also covered in the exercise of their duties by a special group insurance policy for employees that meets any legal expenses incurred as a result of criminal prosecution.

Like all senior executives, members of the Management Board are entitled to participate in the Deferred Compensation Scheme, a supplementary company pension plan via deferred compensation payments deducted from salary. Under DEG's general rules, they are also entitled to long-service awards.

Contractual fringe benefits further include the costs of security measures carried out at residential properties occupied by members of the Management Board; the provision of this security is accounted for under operating charges rather than as benefits in kind.

Where contractual fringe benefits cannot be granted on a tax-free basis, they are subject to taxation as non-cash benefits, with any tax payable by the members of the Management Board.

Annual compensation of members of the Management Board and transfers to pension provision for 2013 and 2014

EUR thousand ¹⁾		Salary	Variable compensation	Benefits in kind ²⁾	Total	Bonus account	Transfers to pension provision
Bruno Wenn (Chairman)	2014	344.9	77.6	14.1	436.6	77.2	168.1
	2013	340.7	66.9	19.1	426.7	80.2	252.4
Dr Michael Bornmann	2014	344.9	78.9	23.5	447.3	79.4	147.6
	2013	340.7	67.5	28.8	437.0	80.8	285.9
Philipp Kreutz	2014	344.9	77.3	12.0	434.2	76.9	173.9
	2013	340.7	66.7	45.6 ³⁾	453.0	80.0	350.2
Total	2014	1.034.8	233.7	49.6	1.318.2	233.5	489.6
	2013	1.022.1	201.1	93.5	1.316.8	241.0	888.5

¹⁾ For computational reasons, the table may contain discrepancies due to rounding.

²⁾ In a departure from the figures in the appendix, this table does not include the employer's contribution as per the German Social Security Act. The previous year's figures have been amended accordingly to provide a better basis for comparison. The total for 2014 is EUR 33.8 thousand (previous year EUR 32.9 thousand).

³⁾ Includes a one-off payment relating to a long-service award.

Retirement pensions for former members of the Management Board or surviving dependants

	Number 2014	EUR thousand 2014	Number 2013	EUR thousand 2013
Former members of the Management Board	5	551.5	5	538.9
Surviving dependants	3	209.8	3	204.8
Total	8	761.3	8	743.7

In 2014 no member of the Management Board was in receipt of a loan from DEG or KfW.

In the past financial year, no member of the Management Board received benefits, or a pledge to that effect, from a third party in respect of his or her activities as a member of DEG's Management Board.

Entitlement to a retirement pension and other benefits in case of early retirement

Under Article 5 Section 1 of the Articles of Association of DEG – Deutsche Investitions- und Entwicklungsgesellschaft mbH, the appointment of a member of the Management Board shall not extend beyond the attainment of statutory retirement age. After they reach the age of 65 or the statutory retirement age respectively, and following expiry of their contract of employment as executive directors, members of the Management Board are entitled to pension payments. This also applies if their service ends due to invalidity.

For contracts of employment for a term beginning in 2014 or earlier, members of the Management Board may at their own request take early retirement after they have reached the age of 63. If their employment is not extended beforehand, and no important reason as per Article 626 of the German Civil Code applies to the person of the member of the Management Board, he or she is entitled to agree a transitional allowance for the period until pension payments fall due.

Pension commitments for members of the Management Board and surviving dependants are based on the principles governing the employment of board members at German federal credit institutions (1992 version). The provisions of PCGC are taken into account in drawing up contracts of employment for executive directors.

Where members of the Management Board were appointed or reappointed as executive directors after 2011, a cap on any severance package has been included in their contracts of employment in keeping with PCGC recommendations. Under the code, any pay-off to a member of the Management Board due to early termination of his or her activities as executive director without important cause as per Article 626 of the German Civil Code, will accordingly be limited to double the

annual salary or compensation, including fringe benefits, due for the remaining period of his or her contract, whichever is lower.

In general, the full retirement pension entitlement is equivalent to 49% of annual fixed remuneration. At initial appointment, the retirement pension entitlement routinely amounts to 70% of the full entitlement and rises over a period of ten years by 3% for every completed year of service.

If the employment contract of a member of the Management Board is terminated, or not renewed, due to a significant reason as per Article 626 of the German Civil Code, any pension entitlements are void in keeping with the principles developed by employment contract case law.

Pension payments to former members of the Management Board and surviving dependants for 2013 and 2014 were EUR 743.7 thousand and EUR 761.3 thousand respectively.

EUR 398.9 thousand were transferred in respect of pension obligations towards former members of the Management Board and their surviving dependants as at the end of the financial year (previous year: EUR 72.7 thousand).

No loans were provided to former members of the Management Board or their surviving dependants in the 2014 financial year.

Compensation for the Supervisory Board

Members of the Supervisory Board receive compensation at a level set by the Shareholders' Meeting as per Article 13 (1) of DEG's Articles of Association and in keeping with the company's character as an institution serving the public benefit.

The level of compensation for members of the Supervisory Board and its committees was newly set with effect from 1 January 2014. In the year under review, compensation for ordinary members amounted to EUR 5,000. Chairmanship of the Supervisory Board attracts compensation in the sum of EUR 9,000, while the two Deputy Chairmen each receive EUR 8,000. With the exception of the Executive Committee, committee members each receive annual compensation of EUR 500, while the committee chairs receive compensation in the amount of EUR 1,000 per annum.

Where membership only covers part of a year, remuneration is paid pro rata.

An attendance fee of EUR 500 per meeting is paid (excepting only meetings of the Executive Committee) along with a daily allowance of EUR 12 per day of attendance. Any travel expenses incurred and any value-added tax payable are reimbursed.

As of 1 July 2011, representatives of KfW serving on DEG's Supervisory Board have declined to claim remuneration and attendance fees. This is in accordance with a fundamental and open-ended decision by the Supervisory Board of KfW.

The following tables provide details of the Supervisory Board's remuneration for the 2013 and 2014 financial years; the sums shown are EUR net and have all been paid. Travel expenses and other miscellaneous expenses were reimbursed upon presentation of receipts and are not included in the table.

There are no pension obligations towards members of the Supervisory Board.

In the year under review, members of the Supervisory Board received no remuneration for services provided personally.

In respect of the risks associated with their activities as officers of the Supervisory Board, members of the Supervisory Board are insured under a policy that covers their liability for monetary damages (D&O insurance) and a supplementary policy covering them for monetary damages and legal expenses. These insurance policies are designed as group insurance. Currently, no deductible has been agreed. Members of the Supervisory Board are also covered in the exercise of their duties by a special group insurance policy for employees that meets any legal expenses incurred as a result of criminal prosecution.

No loans were made to members of the Supervisory Board during the year under review.

Cologne, 23 March 2015

Management Board

Supervisory Board

Compensation of members of the Supervisory Board for the 2013 and 2014 financial years

EUR

No.	Name	Period of membership 2014	Supervisory Board membership	Committee member	Daily allowance and attendance fee	Total
1.	Hans-Joachim Fuchtel ¹⁾	18 Feb. – 31 Dec.	-	-	-	-
2.	Dr Norbert Kloppenburg ¹⁾	1 Jan. – 31 Dec.	-	-	-	-
3.	Dr Harald Braun ²⁾	1 Jan. – 20 Jan.	-	-	-	-
4.	Eberhard Brandes ³⁾	1 Jan. – 31 Dec.	5,000	-	-	5,000
5.	Arndt G. Kirchhoff	1 Jan. – 31 Dec.	5,000	-	512	5,512
6.	Hartmut Koschyk ¹⁾	1 Jan. – 29 Jan.	-	-	-	-
7.	Corinna Linner	1 Jan. – 31 Dec.	8,000	1,000	4,072	13,072
8.	Dr Michael Meister ¹⁾	14 Feb. – 31 Dec.	-	-	-	-
9.	Dr Ulrich Schröder ¹⁾	1 Jan. – 31 Dec.	-	-	-	-
10.	Stephan Steinlein ¹⁾	18 Feb. – 31 Dec.	-	-	-	-
11.	Brigitte Zypries ¹⁾	24 Feb. – 31 Dec.	-	-	-	-
Total			18,000	1,000	4,584	23,584

EUR

No.	Name	Period of membership 2013	Supervisory Board membership	Committee member	Daily allowance and attendance fee	Total
1.	Gudrun Kopp ¹⁾	1 Jan. – 23 Dec.	-	-	-	0
2.	Dr Norbert Kloppenburg ¹⁾	1 Jan. – 31 Dec.	-	-	-	0
3.	Dr Hans-Jörg Todt	1 Jan. – 16 Jun.	1,169	-	62	1,231
4.	Dr Harald Braun ²⁾	1 Jan. – 31 Dec.	2,045	-	86	2,131
5.	Eberhard Brandes ³⁾	1 Jan. – 31 Dec.	2,045	-	-	2,045
6.	Ernst Burgbacher ¹⁾	1 Jan. – 17 Dec.	-	-	-	0
7.	Cécile Couprie ¹⁾	1 Jan. – 16 Jun.	-	-	-	0
8.	Arndt G. Kirchhoff	1 Jan. – 31 Dec.	2,045	-	129	2,174
9.	Hartmut Koschyk ¹⁾	1 Jan. – 31 Dec.	-	-	-	0
10.	Siegmar Mosdorf	1 Jan. – 16 Jun.	936	-	43	979
11.	Dr Ulrich Schröder ¹⁾	1 Jan. – 31 Dec.	-	-	-	0
12.	Prof. Dr Beatrice Weder di Mauro	1 Jan. – 16 Jun.	936	-	-	936
13.	Corinna Linner	17 Jun. – 31 Dec.	1,387	-	136	1,523
Total			10,563	0	456	11,019

¹⁾ Remuneration not claimed

²⁾ The German federal regulation on secondary employment applies to this sum.

³⁾ Remuneration donated to WWF