



LEA 02	Disclosures: Mandatory	Reason for Interaction	Principle: PRI 1, 2, 3
Individual/ internal staff engagements	<p><input checked="" type="checkbox"/> To support investment decision-making in &amp; company's material ESG issues</p> <p><input checked="" type="checkbox"/> To encourage corporate transition for identifying the need to re-evaluate our portfolio</p> <p><input type="checkbox"/> Other: specify</p> <p><input type="checkbox"/> We do not engage in internal staff</p>	<p><input checked="" type="checkbox"/> To support investment decision-making in &amp; company's material ESG issues</p> <p><input checked="" type="checkbox"/> To encourage corporate transition for identifying the need to re-evaluate our portfolio</p> <p><input type="checkbox"/> Other: specify</p> <p><input type="checkbox"/> We do not engage in collaborative engagements</p>	
Collaborative engagements	<p><input type="checkbox"/> To support investment decision-making in &amp; company's material ESG issues</p> <p><input type="checkbox"/> To encourage corporate transition for identifying the need to re-evaluate our portfolio</p> <p><input type="checkbox"/> Other: specify</p> <p><input type="checkbox"/> We do not engage in collaborative engagements</p>		
Service provider engagements	<p><input type="checkbox"/> To support investment decision-making in &amp; company's material ESG issues</p> <p><input type="checkbox"/> To encourage corporate transition for identifying the need to re-evaluate our portfolio</p> <p><input type="checkbox"/> Other: specify</p> <p><input type="checkbox"/> We do not engage in service providers</p>		

# RI TRANSPARENCY REPORT

## 2014/15

KfW Bankengruppe

## About this report

The PRI Reporting Framework is a key step in the journey towards building a common language and industry standard for reporting responsible investment (RI) activities. This RI Transparency Report is one of the key outputs of this Framework. Its primary objective is to enable signatory transparency on RI activities and facilitate dialogue between investors and their clients, beneficiaries and other stakeholders. A copy of this report will be publicly disclosed for all reporting signatories on the [PRI website](#), ensuring accountability of the PRI Initiative and its signatories.

This report is an export of the individual Signatory organisation's response to the PRI during the 2014-15 reporting cycle. It includes their responses to mandatory indicators, as well as responses to voluntary indicators the signatory has agreed to make public. The information is presented exactly as it was reported. Where an indicator offers a response option that is multiple-choice, all options that were available to the signatory to select are presented in this report. Presenting the information exactly as reported is a result of signatory feedback which suggested the PRI not summarise the information. As a result, the reports can be extensive. However, to help easily locate information, there is a **Principles index** which highlights where the information can be found and summarises the indicators that signatories complete and disclose.

## Understanding the Principles Index

The Principles Index summarises the response status for the individual indicators and modules and shows how these relate to the six [Principles for Responsible Investment](#). It can be used by stakeholders as an 'at-a-glance' summary of reported information and to identify particular themes or areas of interest.

Indicators can refer to one or more Principles. Some indicators are not specific to any Principle. These are highlighted in the 'General' column. When multiple Principles are covered across numerous indicators, in order to avoid repetition, only the main Principle covered is highlighted.

All indicators within a module are presented below. The status of indicators is shown with the following symbols:

Symbol	Status
✓	The signatory has completed all mandatory parts of this indicator
☑	The signatory has completed some parts of this indicator
🔒	This indicator was not relevant for this signatory
-	The signatory did not complete any part of this indicator
Ⓜ	The signatory has flagged this indicator for internal review

Within the table, indicators marked in blue are mandatory to complete. Indicators marked in grey are voluntary to complete.

# Principles Index

Organisational Overview				Principle						General
Indicator	Short description	Status	Disclosure	1	2	3	4	5	6	
OO 01	Signatory category and services	✓	Public							✓
OO 02	Headquarters and operational countries	✓	Public							✓
OO 03	Subsidiaries that are separate PRI signatories	✓	Public							✓
OO 04	Reporting year and AUM	✓	Public							✓
OO 05	Breakdown of AUM by asset class	✓	Asset mix disclosed in OO 06							✓
OO 06	How would you like to disclose your asset class mix	✓	Public							✓
OO 07	Segregated mandates or pooled funds	🔒	n/a							✓
OO 08	Breakdown of AUM by market	✓	Public							✓
OO 09	Additional information about organisation	✓	Public							✓
OO 10	RI activities for listed equities	🔒	n/a							✓
OO 11	RI activities in other asset classes	✓	Public							✓
OO 12	Modules and sections required to complete	✓	Public							✓

Overarching Approach				Principle						General
Indicator	Short description	Status	Disclosure	1	2	3	4	5	6	
OA 01	RI policy and other guidance documents	✓	Public							✓
OA 02	Publicly available policies / documents	✓	Public							✓
OA 03	Policy components and coverage	✓	Public	✓	✓					
OA 04	Conflicts of interest	✓	Public							✓
OA 05	RI goals and objectives	✓	Public							✓
OA 06	Main goals/objectives this year	✓	Public							✓
OA 07	Governance, management structures and RI processes	✓	Public							✓
OA 08	RI roles and responsibilities	✓	Public							✓
OA 09	RI in performance management, reward and/or personal development	✓	Public							✓
OA 10	Collaborative organisations / initiatives	✓	Public				✓	✓		
OA 11	Promoting RI independently	✓	Public				✓			
OA 12	Dialogue with public policy makers or standard setters	✓	Public				✓	✓	✓	
OA 13	ESG issues in strategic asset allocation	✓	Public	✓						
OA 14	Allocation of assets to environmental and social themed areas	✓	Public	✓						
OA 15	ESG issues for internally managed assets not reported in framework	✓	Public							✓
OA 16	ESG issues for externally managed assets not reported in framework	🔒	n/a							✓
OA 17	RI/ESG in execution and/or advisory services	🔒	n/a	✓	✓					
OA 18	Innovative features of approach to RI	✓	Public							✓
OA 19	Internal and external review and assurance of responses	✓	Public							✓

Direct - Fixed Income				Principle						General
Indicator	Short description	Status	Disclosure	1	2	3	4	5	6	
FI 01	Breakdown by passive, quantitative, fundamental and other active strategies	✓	Public	✓						
FI 02	Breakdown of investments by credit quality	✓	Public							✓
FI 03	Description of ESG incorporation	✓	Public	✓						
FI 04	Percentage of each incorporation strategy	✓	Public	✓						
FI 05	Type of ESG information used in investment decision	✓	Public	✓						
FI 06	Types of screening applied	✓	Public	✓						
FI 07	Processes to ensure screening is based on robust analysis	✓	Public	✓						
FI 08	Processes to ensure fund criteria are not breached	✓	Public	✓						
FI 09	Types of sustainability thematic funds/mandates	🔒	n/a	✓						
FI 10	Description of ESG integration	✓	Public	✓						
FI 11	Review of ESG issues while researching companies/sectors	✓	Public	✓						
FI 12	Processes to ensure integration is based on robust analysis	✓	Public	✓						
FI 13	Incorporation of ESG issues into analysis and decision making	✓	Public	✓						
FI 14	ESG issues in index construction	🔒	n/a	✓						
FI 15	How ESG incorporation has influenced portfolio composition	✓	Public	✓						
FI 16	Incorporation of ESG issues has improved financial/ESG performance and reduced risk	✓	Public	✓						
FI 17	Examples of ESG issues that affected your investment view / performance	✓	Public	✓						
FI 18	Disclosure of approach to ESG incorporation	✓	Public		✓					✓
FI 19	Engagement with corporate issuers	✓	Public		✓					
FI 20	Engagement with government issuers	✓	Public		✓					

# KfW Bankengruppe

## Reported Information

### Public version

### Organisational Overview

## PRI disclaimer

This document presents information reported directly by signatories. This information has not been audited by the PRI Secretariat or any other party acting on their behalf. While this information is believed to be reliable, no representations or warranties are made as to the accuracy of the information presented, and no responsibility or liability can be accepted for any error or omission.

## Basic Information

OO 01	Mandatory	Gateway/Peering	General
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OO 01.1 Select the category which best represents your primary activity.

- Non-corporate pension or superannuation or retirement or provident fund or plan
- Corporate pension or superannuation or retirement or provident fund or plan
- Insurance company
- Foundation or endowment
- Development finance institution
- Reserve - sovereign or government controlled fund
- Other, specify

OO 02	Mandatory	Peering	General
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OO 02.1 Select the location of your organisation's headquarters.

Germany

OO 02.2 Indicate the number of countries in which you have offices (including your headquarters).

- 1
- 2-5
- 6-10
- >10

OO 02.3 Indicate the approximate number of staff in your organisation in full-time equivalents (FTE).

FTE

73

OO 02.4 Additional information. [Optional]

The information given above refers to KfW's treasury department that is responsible for the management of KfW's liquidity portfolio. Overall, KfW has offices in more than 70 locations worldwide. As at the end of 2013, KfW employed more than 5300 people.

OO 03	Mandatory	Descriptive	General
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OO 03.1

Indicate whether you have subsidiaries within your organisation that are also PRI signatories in their own right.

- Yes
- No

OO 04

Mandatory

Gateway/Peering

General

OO 04.1

Indicate the year end date for your reporting year.

31/12/2014

OO 04.2

Indicate your total AUM at the end of your reporting year, excluding subsidiaries you have chosen not to report on, and advisory/execution only assets.

	trillions	billions	millions	thousands	hundreds
Total AUM		23	808	000	000
Currency	EUR				
Assets in USD		31	223	981	909

OO 04.5

Indicate the level of detail you would like to provide about your asset class mix.

- Approximate percentage breakdown to the nearest 5% (e.g. 45%)
- Broad ranges breakdown (i.e. <10%; 10-50%; >50%)

OO 06

Mandatory

Descriptive

General

OO 06.1

To contextualise your responses to the public, indicate how you would like to disclose your asset class mix.

- Publish our asset class mix as percentage breakdown

	Internally managed (%)	Externally managed (%)
Listed equity	0	0
Fixed income – corporate	47	0
Fixed income – government	26	0
Fixed income – other	27	0
Private debt	0	0
Private equity	0	0



Property	0	0
Infrastructure	0	0
Commodities	0	0
Hedge funds	0	0
Forestry	0	0
Farmland	0	0
Inclusive finance	0	0
Cash	0	0
Other (1), specify	0	0
Other (2), specify	0	0

Publish our asset class mix as broad ranges

Publish our asset class mix as per attached file (the following image formats can be uploaded: .jpg, .jpeg, .png, .bmp and .gif)

**OO 06.2**

Additional information. [Optional]

The asset class "Fixed income - other" sums up bonds issued by supranationals/agencies (23%) and ABS (4%).

**OO 08**

**Mandatory to Report Voluntary to Disclose**

**Peering**

**General**

**OO 08.1**

Indicate the breakdown of your organisation's AUM by market.

Market breakdown	% of AUM
Developed Markets	<input type="radio"/> 0%
	<input type="radio"/> <10%
	<input type="radio"/> 10-50%
	<input checked="" type="radio"/> >50 %
Emerging, Frontier and Other Markets	<input checked="" type="radio"/> 0%
	<input type="radio"/> <10%
	<input type="radio"/> 10-50%
	<input type="radio"/> >50 %

OO 09	Voluntary	Descriptive	General
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OO 09.1	Provide any additional information about your organisation, its mission, strategies, activities or investments which are important to contextualise your responsible investment activities.
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KfW Bankengruppe is one of the leading promotional banks in the world and is fully committed to the concept of sustainable development. For us, entrepreneurial activities and social responsibility go hand in hand. Through its financing activities KfW Bankengruppe supports the improvement of economic, ecological and social living conditions at the local, national, European and global level with a view to contributing to sustainable development. Particularly for us sustainability also means the establishment of viable, self-sustaining economic structures. These aspects are addressed and further developed in the sustainability principles and the sustainability management system of KfW Bankengruppe. We support the sustainability goals set by the Federal Republic of Germany, the European Union and the international community. In particular the sustainability strategy of the German Federal Government and the Law concerning KfW provide us with orientation. We nurture the exchange with other internationally active commercial banks that are greatly committed to sustainability. KfW Bankengruppe cooperates closely with other promotional banks, for example through our membership and active participation in the Finance Initiative of the UN Environment Programme (UNEP FI) and the International Development Finance Club (IDFC), the Association of European Development Finance Institutions (EDFI) and the Association of German Public Banks (Bundesverband Öffentlicher Banken Deutschlands, VÖB) as well as through KfW IPEX Bank in the Equator Principles Association. KfW refinances by issuing bonds on the capital market. Our promotional policies and internal organisation are directed towards sustainable action. Accordingly, buying KfW bonds means investing in sustainability. Along with the good credit rating of our own bonds, a good sustainability rating is also important to us as it represents an external quality label. In its respective peer group, KfW strives to be one of the three leading banks for the most important German sustainability ratings. KfW's own investment practices are directed towards sustainability as well. The bank has been a signatory of the UN Principles for Responsible Investment (PRI) since 2006. Sustainability criteria are incorporated by KfW in the investment decisions of securities management. Issuers with investments in enterprises with untenable business activities according to our exclusion criteria are entirely excluded from the investment universe. The issuers in the investment universe of KfW are regularly informed of their sustainability ranking. For KfW it is important to further develop its own sustainability approach in securities management, to also convince other market participants of the relevance of responsible investing and to contribute to developing pertinent solutions. For additional information about KfW's sustainability guidelines, please refer to the following link: <https://www.kfw.de/nachhaltigkeit/KfW-Group/Sustainability/>

### Gateway asset class implementation indicators

OO 11	Mandatory	Gateway	General
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OO 11.1	Indicate if in the reporting year you incorporated ESG issues into your investment decisions and/or your active ownership practices in the following internally managed asset classes.
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- Fixed income – corporate
- Fixed income – government
- Fixed Income – other
- None of the above

OO 12	Mandatory	Gateway	General
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OO 12.1	The modules and sections that you will be required to complete are listed below.
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*This list is based on the percentages provided in your AUM breakdown and your responses to the gateway indicators. You are only required to report on asset classes that represent 10% or more of your AUM. You may report voluntarily on any applicable modules or sections by selecting them from the list. Fixed Income and Infrastructure are voluntary.*

**Core modules**

- Organisational Overview
- Overarching Approach (including assets which do not have a separate module)

**RI implementation directly or via service providers**

Direct - Fixed Income

- Fixed Income - Corporate
- Fixed Income - Government

**Closing module**

- Closing module

# KfW Bankengruppe

## Reported Information

### Public version

### Overarching Approach

## PRI disclaimer

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## Responsible investment policy

OA 01	Mandatory	Gateway/Core Assessed	General
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OA 01.1	Indicate if you have a responsible investment policy.
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- Yes  
 No

OA 01.2	Indicate if you have other guidance documents or more specific policies related to responsible investment.
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- Yes  
 No

OA 01.3	Provide a brief description of the key elements of your responsible investment policy or, if you do not have a policy, of your overall approach to responsible investment. [Optional]
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KfW is an asset owner signatory to the PRI, committed not only to promoting sustainability through its original lending business but also to taking responsibility as an institutional investor in the capital market. On that background KfW developed and implemented a sustainable investment approach for its liquidity portfolio.

KfW's liquidity portfolio is an essential component in the liquidity maintenance strategy of KfW. The portfolio is made up solely of bonds issued by governments and supranational organisations, financials, covered bonds and ABS. The bonds are selected on the basis of diversification criteria, issuer credit ratings and issuers' sustainability ratings.

In 2008, KfW incorporated ESG criteria into the existing investment process in order to take sustainability ratings into account. Firstly, KfW uses an internal limit process to assess issuer creditworthiness and sets individual investment volume limits. In a second step, the issuer's sustainability rating is taken into account. The sustainability ratings of all issuers that comprise the portfolio universe are evaluated by a sustainability rating agency. The ESG criteria are applied with a weighting of 30% for environment, 35% each for social and corporate governance issues for non-governmental issuers. The three ESG criteria are equally weighted for sovereign issuers.

Sustainability is then assessed in relation to all issuers in the liquidity portfolio using three issuer categories (good, average, relatively low). The categories determine whether the investment volume limit for a given issuer is maintained or reduced. Thus, securities from particularly sustainable issuers are overweighed within the portfolio. The sustainability ratings are updated on a monthly basis.

In parallel with the ESG criteria, KfW introduced exclusion criteria in its liquidity portfolio for non-governmental 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 their peers, 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 and provide issuers with detailed information about the sustainable investment process and highlight strengths and weaknesses in each issuer's sustainability rating.

OA 02	Mandatory	Core Assessed	PRI 6
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OA 02.1	Indicate if your responsible investment policy is publicly available.
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- Yes

**OA 02.2** Provide a URL to your responsible investment policy.

URL

<https://www.kfw.de/nachhaltigkeit/KfW-Group/Sustainability/Sustainable-Banking-Operations/Sustainable-Investment/KfWs-Sustainable-Investment-Approach/>

No

**OA 02.3** Indicate if your other policies or guidance documents related to responsible investment are publicly available.

Yes

Yes, all

Yes, some

**OA 02.4** List these other policies or guidance documents related to responsible investment that are publicly available and their URLs.

Policy or document name	URL
KfW sustainability guidelines	<a href="https://www.kfw.de/Download-Center/Konzernthemen/Nachhaltigkeit/englisch/Umwelt-u-Sozialeitsaetze_E.pdf">https://www.kfw.de/Download-Center/Konzernthemen/Nachhaltigkeit/englisch/Umwelt-u-Sozialeitsaetze_E.pdf</a>
KfW sustainability report 2012	<a href="https://www.kfw.de/Download-Center/Konzernthemen/Nachhaltigkeit/englisch/Sustainability-Report-2012_2_en.pdf">https://www.kfw.de/Download-Center/Konzernthemen/Nachhaltigkeit/englisch/Sustainability-Report-2012_2_en.pdf</a>
Facts and Figures update 2014	<a href="https://www.kfw.de/PDF/Download-Center/Konzernthemen/Nachhaltigkeit/englisch/KfW_NH-Fakten-Update-2014_en.pdf">https://www.kfw.de/PDF/Download-Center/Konzernthemen/Nachhaltigkeit/englisch/KfW_NH-Fakten-Update-2014_en.pdf</a>

No

**OA 03** **Mandatory** **Core Assessed** **PRI 1,2**

**OA 03.1** Indicate the components/types and coverage of your responsible investment policy and guidance documents.

Select all that apply

Policy components/types	Coverage by AUM
<input checked="" type="checkbox"/> Policy setting out your overall approach <input checked="" type="checkbox"/> Engagement/active ownership policy <input type="checkbox"/> Specific guidelines on corporate governance <input type="checkbox"/> Specific guidelines on environmental issues <input type="checkbox"/> Specific guidelines on social issues <input type="checkbox"/> Asset class-specific guidelines <input checked="" type="checkbox"/> Screening/exclusion policy <input type="checkbox"/> Other, specify <input type="checkbox"/> Other, specify	<input checked="" type="radio"/> Applicable policies cover all AUM <input type="radio"/> Applicable policies cover a majority of AUM <input type="radio"/> Applicable policies cover a minority of AUM

<b>OA 03.2</b>	Comment on any variations or exceptions in the coverage of your responsible investment policy. [Optional]
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ABS investments: sustainability ratings for ABS investments are based on the ABS originator as sustainability ratings for ABS issuers are not available.

Exclusion criteria are only applied for non-governmental issuers of bonds that comprise the investment universe for the liquidity portfolio.

<b>OA 04</b>	<b>Mandatory</b>	<b>Core Assessed</b>	<b>General</b>
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<b>OA 04.1</b>	Indicate if your organisation has a policy on managing potential conflicts of interest in the investment process.
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Yes

<b>OA 04.2</b>	Describe your policy on managing potential conflicts of interest in the investment process. [Optional]
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KfW's liquidity portfolio is part of its bank wide treasury operations. Any conflicts of interest that might arise are addressed by KfW's overall compliance management. <https://www.kfw.de/KfW-Group/About-KfW/Verantwortung-und-Corporate-Governance/Integrität-Compliance/>

No

## Objectives and strategies

<b>OA 05</b>	<b>Mandatory</b>	<b>Gateway/Core Assessed</b>	<b>General</b>
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<b>OA 05.1</b>	Indicate if your organisation sets objectives for its responsible investment activities.
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Yes

**OA 05.2**

Indicate how frequently your organisation sets or revises objectives for responsible investment.

- At least once per year
- Less than once per year

**OA 05.3**

Indicate how frequently your organisation formally reviews performance against its objectives for responsible investment.

- Quarterly
  - Biannually
  - Annually
  - Every two years or less
  - It is not reviewed
- No

**OA 05.4**

Additional information. [Optional]

KfW has defined a comprehensive Sustainability Programme for the years 2012-2014 (<https://www.kfw.de/nachhaltigkeit/KfW-Group/Sustainability/Strategie-Management/Nachhaltigkeitsprogramm/>). It comprises 114 measures for developing sustainability activities, making it the guiding principle for our work. The programme was drawn up by KfW's sustainability officers and the group-level environment and climate steering committee. One target area is the implementation of a sustainable investment approach. The 2015-2017 Sustainability Programme is currently in the process of being drawn up.

Besides, the impacts of the sustainable investment approach on the liquidity portfolio are measured and discussed in the context of the regular internal monitoring and reporting processes in KfW's treasury department.

**OA 06**

Voluntary

Descriptive

General

**OA 06.1**

List your three main responsible investment objectives you had set for the reporting year. For each, indicate any key performance indicators you set to measure your progress and also indicate your progress towards achieving your objectives.

- Add responsible investment objective 1

Objective 1	Increases of the liquidity portfolio and new investments made for asset management purposes must be executed according to KfW's sustainable investment approach.
Key performance indicators	monitored via regular reporting documents and processes
Describe the progress achieved	target achieved, ongoing process

- Add responsible investment objective 2



Objective 2	Improvement in the Responsible Investment strategy through cooperation with international working groups (UNEP FI, Global Footprint Network, PRI)
Key performance indicators	meetings/presentations about the new findings and progress of the working groups (E-Risc, PRI corporate fixed income working group), publication of reports
Describe the progress achieved	target achieved, working group membership is ongoing

Add responsible investment objective 3

Objective 3	Engagement with bond issuers and ABS originators of the liquidity portfolio
Key performance indicators	internal documentation about issuer feedback, general details are available online: <a href="https://www.kfw.de/nachhaltigkeit/PDF/Nachhaltiges-Investment/NH_KfW_2015_01_EN.pdf">https://www.kfw.de/nachhaltigkeit/PDF/Nachhaltiges-Investment/NH_KfW_2015_01_EN.pdf</a>
Describe the progress achieved	target achieved, active ongoing communication with issuers in place

**OA 06.2** List your three main objectives for responsible investment implementation for the next reporting year and indicate any key performance indicators you intend to use to measure your progress.

Add responsible investment objective 1 for the next reporting year

Objective 1 for the next reporting year	Increases of the liquidity portfolio and new investments made for asset management purposes must be executed according to KfW's sustainable investment approach including engagement
Key performance indicators	monitored via regular reporting documents and processes

Add responsible investment objective 2 for the next reporting year

Objective 2 for the next reporting year	Improvement in the Responsible Investment strategy through cooperation with international working groups (UNEP FI, Global Footprint Network, PRI)
Key performance indicators	meetings/presentations about the new findings and progress of the working groups (E-Risk, PRI corporate fixed income working group), publication of reports

Add responsible investment objective 3 for the next reporting year

Objective 3 for the next reporting year	implementation of a green bond portfolio that is managed according to a sustainable investment approach
Key performance indicators	monitored via regular reporting documents and processes

<b>OA 06.3</b>	Additional information.
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The green bond portfolio will be set up in the course of 2015. First investments are envisaged for the second quarter of 2015. General information will be available online. Besides, KfW already participates in initiatives that intend to develop market standards for this new market segment, e.g. the development of the Green Bond Principles. The activities of KfW referring to its role as a green bond issuer are available here: <https://www.kfw.de/KfW-Group/Investor-Relations/KfW-Green-Bonds/>

## Governance and human resources

<b>OA 07</b>	Voluntary	Descriptive	General
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<b>OA 07.1</b>	Provide a brief description of your organisation's governance, management structures and processes related to responsible investment.
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As a promotional bank owned by the German Federal Government and the Federal states it is KfW's mission to support the sustainable improvement of economic, social and ecological living conditions in a national and international context. In the challenging times of climate change, globalisation and demographic development, KfW bears a particular share of responsibility as a promotional bank and sets positive impulses towards those trends via its core loan business.

In addition to promoting sustainability through its lending business, KfW also seeks to act as a responsible investor in the capital markets and to account for sustainability in its investment decisions. This is why it signed the PRI in 2006 and decided to develop and implement a sustainable investment approach for its liquidity portfolio. For these asset management activities, the PRI constitute the guiding principles and therefore fill an important gap.

The liquidity portfolio is managed within KfW's treasury department and involves managing financial investments to control liquidity across KfW Group. This is designed to ensure that KfW remains capable of taking action even if it has no access to the capital markets as KfW refinances its promotional business almost solely via bond issuance in these markets. On this background, the key investment objective of the liquidity portfolio is to secure liquidity, while return targets are of secondary importance. The KfW liquidity portfolio is a pure fixed-income portfolio. At least 80% of the securities holdings must meet the criterion of being eligible as collateral for ECB repo operations. KfW adopts a buy-and-hold strategy, which means that the bonds are held to maturity. Risk is managed on the one hand through strict minimum credit requirements for issuers, a broad regional distribution of issuers and bond duration targets. Furthermore, the portfolio is managed according to the sustainable investment approach described in question OA 01.3. and elsewhere in this assessment.

In the course of implementing the sustainable investment process, KfW established the necessary organisational structures in its treasury department and has a dedicated team in place for this process and other issues related to the PRI and sustainable investment in general. All processes that refer to the elements of the sustainable investment approach - ESG integration, screening of exclusion criteria and engagement - are part of day-to-day workflows and operations. The processes are monitored and controlled regularly according to the established surveillance and monitoring processes of KfW.

I would like to attach an organisation chart (the following image formats can be uploaded: .jpg, .jpeg, .png, .bmp and .gif)

<b>OA 08</b>	Mandatory	Gateway/Core Assessed	General
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<b>OA 08.1</b>	Indicate the roles present in your organisation and for each, indicate whether they have oversight and/or implementation responsibilities for responsible investment.
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Roles present in your organisation

- Board members or trustees
  - Oversight/accountability for responsible investment
  - Implementation of responsible investment
  - No oversight/accountability or implementation responsibility for responsible investment
- Chief Executive Officer (CEO), Chief Investment Officer (CIO), Investment Committee
  - Oversight/accountability for responsible investment
  - Implementation of responsible investment
  - No oversight/accountability or implementation responsibility for responsible investment
- Other Chief-level staff or head of department, specify
  - senior management**
    - Oversight/accountability for responsible investment
    - Implementation of responsible investment
    - No oversight/accountability or implementation responsibility for responsible investment
- Portfolio managers
  - Oversight/accountability for responsible investment
  - Implementation of responsible investment
  - No oversight/accountability or implementation responsibility for responsible investment
- Investment analysts
- Dedicated responsible investment staff
  - Oversight/accountability for responsible investment
  - Implementation of responsible investment
  - No oversight/accountability or implementation responsibility for responsible investment
- External managers or service providers
  - Oversight/accountability for responsible investment
  - Implementation of responsible investment
  - No oversight/accountability or implementation responsibility for responsible investment
- Other role, specify
- Other role, specify

**OA 08.2** Indicate the number of dedicated responsible investment staff your organisation has. [Optional]

Number

5

**OA 09**

**Voluntary**

**Additional Assessed**

**General**

**OA 09.1**

Indicate if your organisation's performance management, reward and/or personal development processes have a responsible investment element.

**Board members/Board of trustees**

- Responsible investment included in personal development and/or training plan
- None of the above

**Chief Executive Officer (CEO), Chief Investment Officer (CIO), Investment Committee**

- Responsible investment KPIs and/or goals included in objectives
- Responsible investment included in appraisal process
- Variable pay linked to responsible investment performance
- Responsible investment included in personal development and/or training plan
- None of the above

**Other C-level staff or head of department**

senior management

- Responsible investment KPIs and/or goals included in objectives
- Responsible investment included in appraisal process
- Variable pay linked to responsible investment performance
- Responsible investment included in personal development and/or training plan
- None of the above

**Portfolio managers**

- Responsible investment KPIs and/or goals included in objectives
- Responsible investment included in appraisal process
- Variable pay linked to responsible investment performance
- Responsible investment included in personal development and/or training plan
- None of the above

**Dedicated responsible investment staff**

- Responsible investment KPIs and/or goals included in objectives
- Responsible investment included in appraisal process
- Variable pay linked to responsible investment performance
- Responsible investment included in personal development and/or training plan
- None of the above

**Promoting responsible investment**

OA 10	Mandatory	Core Assessed	PRI 4,5
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OA 10.1	Select the collaborative organisation and/or initiatives of which your organisation is a member or in which it participated during the reporting year, and the role you played.
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**Select all that apply**

- Principles for Responsible Investment

Your organisation's role in the initiative during the reporting period (see definitions)

- Basic
- Moderate
- Advanced

Provide a brief commentary on the level of your organisation's involvement in the initiative. [Optional]

chair in corporate fixed income working group

- Asian Corporate Governance Association
- Association for Sustainable & Responsible Investment in Asia
- Australian Council of Superannuation Investors
- CDP Climate Change

Your organisation's role in the initiative during the reporting period (see definitions)

- Basic
- Moderate
- Advanced

Provide a brief commentary on the level of your organisation's involvement in the initiative. [Optional]

signatory to the CDP

- CDP Forests
- CDP Water
- CFA Institute Centre for Financial Market Integrity
- Council of Institutional Investors (CII)
- Eumedion
- Extractive Industries Transparency Initiative (EITI)

Your organisation's role in the initiative during the reporting period (see definitions)

- Basic
- Moderate
- Advanced

Provide a brief commentary on the level of your organisation's involvement in the initiative. [Optional]

<https://www.kfw.de/KfW-Group/About-KfW/Verantwortung-und-Corporate-Governance/Integrität-Compliance/KfW-ist-Fördermitglied-der-EITI/>

- Global Investors Governance Network (GIGN)
- Global Real Estate Sustainability Benchmark (GRESB)
- Institutional Investors Group on Climate Change (IIGCC)
- Interfaith Center on Corporate Responsibility (ICCR)
- International Corporate Governance Network (ICGN)
- Investor Group on Climate Change, Australia/New Zealand (IGCC)
- Investor Network on Climate Risk (INCR)/CERES
- Local Authority Pension Fund Forum
- Regional or National Social Investment Forums (e.g. UKSIF, Eurosif, ASRIA, RIAA), specify
- Shareholder Association for Research and Education (Share)
- United Nations Environmental Program Finance Initiative (UNEP FI)

Your organisation's role in the initiative during the reporting period (see definitions)

- Basic
- Moderate
- Advanced

Provide a brief commentary on the level of your organisation's involvement in the initiative. [Optional]

<https://www.kfw.de/nachhaltigkeit/migration/Nachhaltigkeit/Sustainability/Sustainability/Sustainability-guideline-of-KfW-Bankengruppe.pdf>

- United Nations Global Compact
- Other collaborative organisation/initiative, specify  
Equator Principles Association

Your organisation's role in the initiative during the reporting year (see definitions)

- Basic
- Moderate
- Advanced

Provide a brief commentary on the level of your organisation's involvement in the initiative. [Optional]

<https://www.kfw-ipex-bank.de/International-financing/KfW-IPEX-Bank/About-KfW-IPEX-Bank/Gesellschaftliche-Verantwortung/Äquator-Prinzipien/index.html>

- Other collaborative organisation/initiative, specify  
Development Finance Club (IDFC)

Your organisation's role in the initiative during the reporting year (see definitions)

- Basic
- Moderate
- Advanced

Provide a brief commentary on the level of your organisation's involvement in the initiative. [Optional]

<https://www.kfw-entwicklungsbank.de/International-financing/KfW-Development-Bank/Topics/Climate/Events/UN-Climate-Conference-Lima/>

- Other collaborative organisation/initiative, specify  
European Development Finance Institutions (EDFI)

Your organisation's role in the initiative during the reporting year (see definitions)

- Basic
- Moderate
- Advanced

Provide a brief commentary on the level of your organisation's involvement in the initiative. [Optional]

[https://www.deginvest.de/Press/News/News-Details\\_130752.html](https://www.deginvest.de/Press/News/News-Details_130752.html)

- Other collaborative organisation/initiative, specify

OA 11	Mandatory	Core Assessed	PRI 4
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**OA 11.1** Indicate if your organisation promotes responsible investment, independently of collaborative initiatives.

- Yes

**OA 11.2** Indicate which of the following actions your organisation has taken to promote responsible investment, independently of collaborative initiatives.

- Provided or supported education or training programmes for clients, investment managers, broker/dealers, investment consultants, legal advisers or other investment organisations
- Provided financial support for academic or industry research on responsible investment
- Encouraged better transparency and disclosure of responsible investment practices across the investment industry
- Spoke publicly at events and conferences to promote responsible investment
- Wrote and published in-house research papers on responsible investment
- Encouraged the adoption of the PRI
- Other, specify

Participation in various working groups (e.g. E-RISC project (UNEP FI/GFN), initiatives promoting the green bond market (e.g. Green Bond Principles).

No

**OA 11.3** Additional information. [Optional]

As one of the world's largest financiers of renewable energy, KfW endeavors to make an active contribution to climate protection through its capital market activities. Therefore, KfW started to issue green bonds in 2014. These bonds give investors the option to combine the security and liquidity typical for KfW bonds with the promotion of environmental and climate protection. By issuing green bonds, KfW hopes to establish and to strengthen this growing market segment.

In this context, KfW also actively cooperates with initiatives that aim at establishing sophisticated market standards for green bonds, e.g. the Green Bond Principles.

Further information is available on KfW's website:

<https://www.kfw.de/KfW-Group/Investor-Relations/KfW-Green-Bonds/>

[https://www.kfw.de/KfW-Group/Newsroom/Aktuelles/Pressemitteilungen/Pressemitteilungen-Details\\_212160.html](https://www.kfw.de/KfW-Group/Newsroom/Aktuelles/Pressemitteilungen/Pressemitteilungen-Details_212160.html)

**OA 12**

**Voluntary**

**Additional Assessed**

**PRI 4,5,6**

**OA 12.1**

Indicate if your organisation - individually or in collaboration with others - conducted dialogue with public policy makers or standard-setters in support of responsible investment in the reporting year.

Yes

Yes, individually

Yes, in collaboration with others

**OA 12.2**

Select the methods you have used.

Endorsed written submissions to governments, regulators or standard-setters developed by others

Drafted your own written submissions to governments, regulators or standard-setters

Participated in face-to-face meetings with government members or officials to discuss policy

Other, specify

**OA 12.3**

Where you have made written submissions (individually or collaboratively) to governments and regulatory authorities, indicate if these are publicly available.

Yes, publicly available

provide URL

[http://www.bmub.bund.de/presse/pressemitteilungen/pm/artikel/fuer-eine-nachhaltige-und-verantwortliche-finanzwirtschaft/?tx\\_ttnews%5BbackPid%5D=1892&cHash=b08522deb1fe9da9e5dc7dc948989f06](http://www.bmub.bund.de/presse/pressemitteilungen/pm/artikel/fuer-eine-nachhaltige-und-verantwortliche-finanzwirtschaft/?tx_ttnews%5BbackPid%5D=1892&cHash=b08522deb1fe9da9e5dc7dc948989f06)

No

No



<b>OA 12.4</b>	Additional information.
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KfW participates in the working group "Financing the green economy" that is governed by the German Federal Ministry for the Environment, Nature Conservation, Building and Nuclear Safety. The initiative that includes both representatives from the capital markets and politicians focuses on issues referring to "ESG and the capital market", "Regulation" and "Financing methods".

## ESG issues in asset allocation

<b>OA 13</b>	<b>Voluntary</b>	<b>Descriptive</b>	<b>PRI 1</b>
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<b>OA 13.1</b>	Indicate if your organisation considers ESG issues in strategic asset allocation and/or allocation of assets between geographic markets.
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- Yes
- No

<b>OA 13.3</b>	Additional information.
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KfW has only one portfolio - the liquidity portfolio which is purely fixed income. Therefore, asset allocation methods are not applicable.

<b>OA 14</b>	<b>Voluntary</b>	<b>Descriptive</b>	<b>PRI 1</b>
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<b>OA 14.1</b>	Indicate if your organisation allocates assets to, or manages, funds based on specific environmental and social themed areas.
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- Yes
- No

## Asset class implementation not reported in other modules

<b>OA 15</b>	<b>Voluntary</b>	<b>Descriptive</b>	<b>General</b>
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<b>OA 15.1</b>	Describe how you address ESG issues for internally managed assets for which a specific PRI asset class module has yet to be developed or for which you are not required to report because your assets are below the minimum threshold.
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Asset Class	Describe what processes are in place and the outputs or outcomes achieved
Fixed income - other	the asset class consists of bonds issued by supranational issuers and ABS. KfW applies its sustainable investment approach as described for Fixed income - corporate and government.

## Innovation

OA 18	Voluntary	Descriptive	General
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OA 18.1	Indicate whether any specific features of your approach to responsible investment are particularly innovative.
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Yes

OA 18.2	Describe any specific features of your approach to responsible investment that you believe are particularly innovative.
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KfW is a pure fixed income investor. Internal guidelines restrict the investment universe to sovereign bonds, bonds issued by supranational or semi-governmental institutions, financials, covered bonds and ABS. These restrictions are a challenge for sustainable portfolio management. The two methods mainly used to introduce sustainability into portfolio management - the "best-in-class" approach and exclusion criteria - are not easy to be implemented by KfW. Using a pure "best-in-class" approach would restrict the investment universe to a great extent and not take into account the sheer size of KfW's liquidity portfolio that amounts to around € 24 bn. The construction of an adequately diversified portfolio would be difficult or even impossible to achieve.

KfW's chosen approach to integrate ESG criteria by allowing every issuer's individual sustainability rating to influence investment limits is a useful innovation. It enables the creation of a sustainable portfolio that is characterised by a relatively small investment universe. Whilst only 20% of all issuers maintain their limit, 80% of the issuers are confronted with limit reductions. When an issuer's limit is reduced, further investment is curtailed and will ultimately be blocked completely. The sustainability ratings of all issuers are updated on a monthly basis.

Put differently, a key feature of KfW's approach regarding ESG integration is its competitive element. Bond issuers with good sustainability ratings only maintain their limits if they defend their position in the long run. Improvements in the sustainability rating of an individual issuer lead to a better rating compared to all other issuers in the portfolio. On the other hand, a change in the rating of any one issuer automatically influences the position of the others and an issuer may also be downgraded to a lower-rated group.

To provide transparency regarding its investment approach and its competitive element KfW regularly engages with the issuers in order to inform them about their current sustainability rating and the existence of exclusion criteria and encourages them to maintain or strengthen their commitment to sustainability. This ongoing dialogue with the issuers is appreciated both by KfW and the issuers and is viewed as a fruitful exchange on perceptions as to sustainable banking operations and sustainable investment. In many cases it has had positive effects on an issuer's sustainability ratings.

The introduction of exclusion criteria for non-governmental issuers as is common in equity portfolios is also not applicable without significant modifications bearing in mind the portfolio restrictions mentioned above. This is due to the fact that financial institutions are not producing enterprises. Therefore, the exclusion criteria essentially are applied indirectly by KfW (see question FI 06.2).

No

## Assurance of responses

OA 19	Voluntary	Additional Assessed	General
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OA 19.1	Indicate whether your reported information has been reviewed, validated and/or assured by internal and/or external parties.
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Yes

**OA 19.2**

Indicate who has reviewed, validated and/or assured your reported information.

- Reviewed by Board, CEO, CIO or Investment Committee
- Validated by internal audit or compliance function
- Assured by an external independent provider, specify name

KfW's sustainability report 2012 has been audited by PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft

**OA 19.3**

Describe the steps you have taken to review, validate and/or assure the content of your reported information.

The reported information disclosed in the PRI Reporting Framework 2014/15 has been reviewed internally by KfW's treasury department.

**OA 19.4**

Attach any relevant documents.

[Sustainability-Report-2012\\_2\\_en.pdf](#)

No

# KfW Bankengruppe

## Reported Information

### Public version

#### Direct - Fixed Income

## PRI disclaimer

This document presents information reported directly by signatories. This information has not been audited by the PRI Secretariat or any other party acting on their behalf. While this information is believed to be reliable, no representations or warranties are made as to the accuracy of the information presented, and no responsibility or liability can be accepted for any error or omission.

## Overview

FI 01	Mandatory to Report Voluntary to Disclose	Gateway/Peering	PRI 1
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**FI 01.1** Provide a breakdown of your internally managed fixed income investments by passive, quantitative, fundamental and other active strategies. For strategies that account for less than 10% of your fixed income investments, indicate if you would still like to report your activities.

Fixed income – corporate

### Strategies

- Passive
- Active – quantitative (quant)
- Active - fundamental and other active strategies

Percentage of internally managed fixed income - corporate

- <10%
- 10-50%
- >50%

Fixed income – government

### Strategies

- Passive
- Active – quantitative (quant)
- Active - fundamental and other active strategies

Percentage of internally managed fixed income - government

- <10%
- 10-50%
- >50%

FI 02	Mandatory to Report Voluntary to Disclose	Peering	General
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**FI 02.1** Provide a breakdown of your internally managed fixed income investments by credit quality.

Credit quality	Fixed Income - Corporate
Investment grade	<input type="radio"/> 0% <input type="radio"/> <10% <input type="radio"/> 10-50% <input checked="" type="radio"/> >50%
High yield	<input type="radio"/> 0% <input checked="" type="radio"/> <10% <input type="radio"/> 10-50% <input type="radio"/> >50%
Distressed	<input checked="" type="radio"/> 0% <input type="radio"/> <10% <input type="radio"/> 10-50% <input type="radio"/> >50%

Credit quality	Fixed Income - Government
Investment grade	<input type="radio"/> 0% <input type="radio"/> <10% <input type="radio"/> 10-50% <input checked="" type="radio"/> >50%
High yield	<input checked="" type="radio"/> 0% <input type="radio"/> <10% <input type="radio"/> 10-50% <input type="radio"/> >50%
Distressed	<input checked="" type="radio"/> 0% <input type="radio"/> <10% <input type="radio"/> 10-50% <input type="radio"/> >50%

FI 02.2

Provide a breakdown of your fixed income investments between primary and secondary market.

Market	Fixed Income - Corporate
Primary market (new issues)	<input type="radio"/> 0% <input type="radio"/> <10% <input checked="" type="radio"/> 10-50% <input type="radio"/> >50%
Secondary market	<input type="radio"/> 0% <input type="radio"/> <10% <input type="radio"/> 10-50% <input checked="" type="radio"/> >50%

Market	Fixed Income - Government
Primary market (new issues)	<input type="radio"/> 0% <input type="radio"/> <10% <input checked="" type="radio"/> 10-50% <input type="radio"/> >50%
Secondary market	<input type="radio"/> 0% <input type="radio"/> <10% <input type="radio"/> 10-50% <input checked="" type="radio"/> >50%

## ESG incorporation in actively managed fixed income

FI 03	Voluntary	Descriptive	PRI 1
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FI 03.1	Provide a brief overview of how you incorporate ESG issues in fixed income investments.
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Fixed Income - Corporate
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The sustainable investment approach for KfW's liquidity portfolio comprises three elements:

- Integration of ESG criteria (environmental, social and governance) in investment decision-making and limit management for all issuers of the liquidity portfolio
- Introduction of exclusion criteria for corporate issuers
- Engagement with corporate issuers of the liquidity portfolio.

Since 2008, in addition to the credit assessment of the issuers, KfW has also been including their sustainability rating on the basis of ESG criteria in the investment decisions for the liquidity portfolio.

The sustainability rating for the issuers in the liquidity portfolio are created by the sustainability rating agency Sustainalytics, taking into consideration a variety of individual criteria, which are grouped into the categories "environment", "governance" and "social".

When creating sustainability ratings, the sustainability rating agencies normally use a sector-specific weighting of the categories "environment", "social" and "governance". For non-governmental issuers in the financial sector, Sustainalytics applies a weighting of 30%-35%-35%, which we have also adopted. The three ESG criteria are equally weighted for sovereign issuers.

A sustainability score, which is relative in comparison to the respective sector, is thus assigned to the issuers. The issuers in the liquidity portfolio are assigned to three rating categories on the basis of this ranking. The 20% with the highest sustainability scores are classified as "good", the following 60% as average, and the remaining 20% receive the lowest sustainability rating.

This classification is used to determine whether the limit volume for an issuer, provided on the basis of the credit rating, is retained or reduced. The given limit volume is retained for the issuers in the best sustainability rating category, while it is reduced by 10% or 30% for issuers in the average or low sustainability rating category. An overweighting of the most sustainable issuers in the liquidity portfolio is thus achieved.

In addition to the ESG criteria, exclusion criteria are also integrated into KfW's investment approach for the liquidity portfolio. Applying exclusion criteria ensures that, as a matter of principle, no funds provided by KfW to the issuers through the purchase of their bonds for the KfW liquidity portfolio can flow into projects which, from our perspective, are likely to have unacceptable negative impacts on the environment, social conditions and governance.

If the issuers are financial services providers, the exclusion criteria are applied indirectly, in the case of banks, for example, to their relevant equity participations. Exclusion criteria are not considered for bonds of sovereign issuers.

Indirect application of exclusion criteria to:

- shares held by financial institutions of at least 10 % in an enterprise,
  - which generates at least 5% of its annual turnover on the basis of one or more of the products covered by the exclusion criteria, or
  - which exhibits a controversy factor of 4 or 5 as determined by our research partner Sustainalytics. A rating of 4 or higher on a scale of 1-5 means that controversies or serious violations have been repeatedly identified in an enterprise.
- The amount of the equity participations must account for at least 0.5% of a bank's total assets.

A key component of the Principles for Responsible Investment (PRI) is engagement. The goal pursued here is to demand an active approach to ESG issues on the capital market, promote the acceptance of sustainable investments and support the implementation of the PRI through the adoption of appropriate disclosure and reporting practices.

Since KfW does not hold any shares as part of our securities investments, and is therefore unable to encourage the enterprises towards more sustainability through the active exercise of voting rights, KfW relies chiefly on dialogue with the issuers of the liquidity portfolio.

The sustainable investment approach focuses on an issuer's sustainability rating in relation to the sustainability ratings of all other issuers. This means that the issuers are in competition with the other issuers in the liquidity portfolio. Depending on the degree of an issuer's sustainable business practices, his sustainability rating can improve or deteriorate relative to the rating of all other issuers, which has an impact on the investable limit volume for the respective issuer. From our perspective, it is therefore essential to inform the issuers about their current sustainability rating on an ongoing basis, and to encourage them to maintain or strengthen their commitment to sustainability.

Happily, many issuers take up KfW's offer of dialogue and initiate measures to improve their sustainability assessment or increase the transparency of their sustainability activities.

Fixed Income - Government

please refer to explanations above for fixed income - corporate

**Fixed Income - Corporate**

**Implementation processes**



FI 04	Mandatory	Gateway/Core Assessed	PRI 1
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**FI 04.1** Indicate (1) which ESG incorporation strategy and/or combination of strategies you apply to your actively managed corporate fixed income investments; and, (2) the breakdown of your actively managed corporate fixed income investments by incorporation strategy or combination of strategies.

**ESG incorporation strategy** (select all that apply)

- Screening alone (i.e. not combined with any other strategies)
- Thematic alone (i.e. not combined with any other strategies)
- Integration alone (i.e. not combined with any other strategies)
- Screening + Integration strategies

Percentage of active corporate fixed income to which the strategy is applied (estimate +/- 10%)	<div style="background-color: #0072bc; color: white; padding: 5px; display: inline-block;"> <span style="font-size: 2em; font-weight: bold;">%</span> </div> <div style="background-color: #0072bc; color: white; padding: 5px; display: inline-block;">100</div>
---	--

- Thematic + integration strategies
- Screening + thematic strategies
- All three strategies combined
- No incorporation strategies applied

Total actively managed fixed income - corporate

100%

**FI 04.2** Describe your primary reasons for choosing a particular incorporation strategy.

please refer to question OA 18.2

FI 05	Voluntary	Additional Assessed	PRI 1
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**FI 05.1** Indicate what ESG information you use in your ESG incorporation strategies and who provides this information.

**Type of ESG information**

- Raw ESG company data
- Issuer-related analysis or ratings

Describe who provides this information.

Issuer-related sustainability ratings are provided by the sustainability rating agency Sustainalytics.

- Sector-related analysis or ratings

Describe who provides this information.

Sustainalytics also provides research that refers to a particular sector or industry.

- Country-related analysis or ratings

Describe who provides this information.

Sustainability ratings and analysis for individual countries are provided by the sustainability rating agency Sustainalytics.

- Screened bond list

Describe who provides this information.

KfW's portfolio universe (only non-governmental issuers) is screened by Sustainalytics according to KfW's specific set of exclusion criteria.

- ESG issue-specific analysis or ratings
- Other, specify

**FI 05.2** Provide a brief description of the ESG information used, highlighting any differences of sources of information across your ESG incorporation strategies.

Sustainalytics is KfW's current external partner that provides sustainability ratings for all issuers in KfW's liquidity portfolio. Besides, Sustainalytics screens the non-governmental issuers on a set of exclusion criteria.

**(A) Implementation: Screening**

FI 06	Mandatory	Descriptive	PRI 1
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**FI 06.1** Indicate and describe the type of screening you apply to your internally managed active corporate fixed income investments.

**Type of screening**

- Negative/exclusionary screening

**Screened by**

- Product
- Activity
- Sector
- Country/geographic region
- Environmental and social practices and performance
- Corporate governance

## Description

The exclusion criteria for financial services providers are based on the "IFC Exclusion List" and are intended to ensure that excluded projects are not supported with funds provided by KfW to the issuers through the purchase of bonds for KfW's liquidity portfolio.

1. Production or activities involving harmful or exploitative forms of forced labour or child labour as defined in the ILO core labour standards.
2. Production, use of or trade in pharmaceuticals, pesticides/herbicides, chemicals, ozone depleting substances and other hazardous substances that are subject to international bans.
3. Trade in animals or animal products that are subject to the provisions of CITES (Convention on International Trade in Endangered Species of Wild Fauna and Flora).
4. Production of cosmetics etc. involving testing on animals.
5. Commercial logging operations for use in primary tropical moist forests.
6. Production of wood or wood products other than from sustainably managed forests (enterprises with less than 50% FSC-certified production are excluded, FSC - Forest Stewardship Council).
7. Production or trade in controversial weapons or important components for the production of controversial weapons (anti-personnel mines, biological and chemical weapons, cluster bombs, radioactive ammunition, nuclear weapons).
8. Production or trade in tobacco.
9. Drift net fishing in the marine environment using nets in excess of 2.5 kilometres in length.
10. Controversial forms of gambling: operation of casinos, production of devices or other equipment for casinos or betting offices or companies that generate turnover via online betting. (So-called "short odds" are defined as "controversial forms of gambling").
11. Any business activity involving pornography.
12. Production or distribution of racist, anti-democratic and/or neo-Nazi media.

Positive/best-in-class screening

Norms-based screening

## FI 06.2

Describe how the screening criteria are established, how often the criteria are reviewed and how you notify clients and/or beneficiaries when changes are made.

In addition to the ESG criteria, exclusion criteria are also integrated into KfW's investment approach for the non-governmental issuers of the liquidity portfolio. Applying exclusion criteria ensures that, as a matter of principle, no funds provided by KfW to these issuers through the purchase of their bonds for the KfW liquidity portfolio can flow into projects which, from our perspective, are likely to have unacceptable negative impacts on the environment, social conditions and governance.

If the issuers are financial services providers, the exclusion criteria are applied indirectly, in the case of banks, for example, to their relevant equity participations. Exclusion criteria are not considered for bonds of sovereign issuers.

Indirect application of exclusion criteria to:

- shares held by financial institutions of at least 10 % in an enterprise,

- which generates at least 5% of its annual turnover on the basis of one or more of the products covered by the exclusion criteria, or

- which exhibits a controversy factor of 4 or 5 as determined by our research partner Sustainalytics. A rating of 4 or higher on a scale of 1-5 means that controversies or serious violations have been repeatedly identified in an enterprise.

- The amount of the equity participations must account for at least 0.5% of a bank's total assets.

KfW started to screen the liquidity portfolio on the set of exclusion criteria mentioned above in 2011. The criteria have been applied and deemed successfully for the time being. Issuers are informed about the application of an exclusion criterion during KfW's annual engagement process.

FI 07	Mandatory	Core Assessed	PRI 1
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FI 07.1	Indicate which processes your organisation uses to ensure that screening in corporate fixed income is based on robust analysis.
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- Comprehensive research is undertaken or sourced to determine issuers' ESG performance
- Issuers are given the opportunity by you or your research provider to review ESG research on them and correct inaccuracies
- External research and data used to identify issuers to be excluded/included is subject to internal audit by ESG/RI staff, the internal audit function or similar
- Information on ESG issues and/or ratings is updated regularly to ensure that portfolio holdings comply with fund policies
- A committee or body with representatives independent of the individuals who conduct ESG research reviews some or all screening decisions
- A periodic review of the quality of the research undertaken or provided is carried out
- Other, specify
- None of the above

FI 08	Voluntary	Additional Assessed	PRI 1
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FI 08.1	Indicate which processes your organisation uses to ensure that fund criteria are not breached in corporate fixed income investments.
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- Checks are performed to ensure that issuers meet the funds' screening criteria. These checks are:
  - Systematic
  - Occasional
- Automated IT systems prevent investment managers from investing in excluded bonds or those that do not meet positive screening criteria
- Audits of fund holdings are undertaken regularly by internal audit function
- Other, specify
- None of the above

FI 08.2	If breaches of fund screening criteria are identified, describe the process followed to correct those breaches.
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The liquidity portfolio is screened on the set of exclusion criteria on a monthly basis. Once a breach has been identified, further investments in bonds of this specific issuer are blocked immediately.

## (C) Implementation: Integration of ESG factors

FI 10	Voluntary	Descriptive	PRI 1
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FI 10.1

Describe how you integrate ESG issues into investment decision-making processes.

After signing the PRI, KfW discussed different strategies to implement a sustainable investment approach for its liquidity portfolio. In this process, the adherence to the objective of the liquidity portfolio was of paramount importance.

The liquidity portfolio is part of KfW's overall liquidity management activities. It is a pure fixed income portfolio. The portfolio's asset allocation includes sovereign issuers, supranationals, financials and covered bonds as described already. KfW adopts a buy-and-hold strategy, which means that the bonds are held to maturity. Risk is managed on the one hand through strict minimum credit requirements for issuers, a broad regional distribution of issuers and bond duration targets. Furthermore, the maximum investment amount for each bond issuer, the so-called limit, is set according to the bank-wide single borrower limit framework.

Considering these unique characteristics of the liquidity portfolio and its investment guidelines, KfW decided in 2008 to integrate ESG criteria in the current investment approach. This implies that in addition to the credit assessment of the issuers their sustainability rating is also included in the limit assessment. More recently, KfW introduced an engagement approach in 2010 and exclusion criteria for non-governmental issuers in 2011.

For details concerning ESG integration please refer to question FI 03.1

FI 11

Mandatory

Core Assessed

PRI 1

FI 11.1

Indicate if E, S and G issues are reviewed while researching companies and/or sectors in active strategies.

ESG issues	Coverage/extent of review on these issues
Environmental	<input checked="" type="radio"/> We systematically review the potential significance of environmental issues and investigate them accordingly <input type="radio"/> We occasionally review the potential significance of environmental issues and investigate them accordingly <input type="radio"/> We do not review environmental issues
Social	<input checked="" type="radio"/> We systematically review the potential significance of social issues and investigate them accordingly <input type="radio"/> We occasionally review the potential significance of social issues and investigate them accordingly <input type="radio"/> We do not review social issues
Corporate Governance	<input checked="" type="radio"/> We systematically review the potential significance of corporate governance issues and investigate them accordingly <input type="radio"/> We occasionally review the potential significance of corporate governance issues and investigate them accordingly <input type="radio"/> We do not review corporate governance issues

FI 12

Voluntary

Descriptive

PRI 1

<b>FI 12.1</b>	Indicate which processes your organisation uses to ensure that ESG integration is based on a robust analysis.
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- Comprehensive ESG research is undertaken or sourced to determine companies' activities and products
- Companies are given the opportunity by you or your research provider to review ESG research on them and correct inaccuracies
- Company information and/or ratings on ESG are updated regularly
- A periodic review of the quality of the research undertaken or provided is carried out
- Other, specify
- None of the above

<b>FI 12.2</b>	Describe how ESG information is held and used by your portfolio managers.
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- ESG information is held within centralised databases or tools and it is accessible by all relevant staff
- ESG information or analysis is a standard section or aspect of all company research notes or industry/sector analysis generated by investment staff
- Systematic records are kept that capture how ESG information and research was incorporated into investment decisions
- Other, specify
- None of the above

## Fixed income - Government

<b>FI 13</b>	<b>Mandatory</b>	<b>Core Assessed</b>	<b>PRI 1</b>
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<b>FI 13.1</b>	Indicate if you incorporate ESG issues in investment analysis and decision making for your government fixed income investments.
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Yes

<b>FI 13.2</b>	Indicate for what percentage of your government fixed income investments you incorporate ESG issues in investment analysis and decision making.
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- <10%
- 10-50%
- 51-90%
- >90%

<b>FI 13.3</b>	Indicate if in active strategies, E, S and G issues are reviewed while researching government issuers.
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ESG issues	Coverage/extent of review on these issues
Environmental	<input checked="" type="radio"/> We systematically review the potential significance of environmental issues and investigate them accordingly <input type="radio"/> We occasionally review the potential significance of environmental issues and investigate them accordingly <input type="radio"/> We do not review environmental issues
Social	<input checked="" type="radio"/> We systematically review the potential significance of social issues and investigate them accordingly <input type="radio"/> We occasionally review the potential significance of social issues and investigate them accordingly <input type="radio"/> We do not review social issues
Corporate Governance	<input checked="" type="radio"/> We systematically review the potential significance of corporate governance issues and investigate them accordingly <input type="radio"/> We occasionally review the potential significance of corporate governance issues and investigate them accordingly <input type="radio"/> We do not review corporate governance issues

<b>FI 13.4</b>	Describe your approach to incorporating ESG issues in government fixed income investments. [Optional]
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see question FI 03.1

No

## Outputs and outcomes

<b>FI 15</b>	<b>Voluntary</b>	<b>Descriptive</b>	<b>PRI 1</b>
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<b>FI 15.1</b>	Indicate how your ESG incorporation strategies have influenced the composition of your fixed income portfolio(s) or investment universe.
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### Fixed Income - Corporate

- Narrow down or prioritise the investment universe
- Buy / sell / weight decisions
- Other, specify

<b>FI 15.1</b>	Indicate how your ESG incorporation strategies have influenced the composition of your fixed income portfolio(s) or investment universe.
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### Fixed Income - Government

- Narrow down or prioritise the investment universe
- Buy / sell / weight decisions
- Other, specify

<b>FI 16</b>	<b>Voluntary</b>	<b>Descriptive</b>	<b>PRI 1</b>
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**FI 16.1** Indicate whether your organisation measures how your approach to ESG issues in Fixed Income investments has affected financial and/or ESG performance.

- We measure whether our approach to ESG issues impacts funds' financial performance
- We measure whether our approach to ESG issues impacts funds' risk or volatility
- We measure whether our approach to ESG issues impacts funds' ESG performance

Fixed Income - Corporate

Describe the impact on:	Impact	Strategies considered
<b>Funds' ESG performance</b>	<input checked="" type="radio"/> Positive <input type="radio"/> Negative <input type="radio"/> No impact <input type="radio"/> We do not measure the impact for this asset class	<input checked="" type="checkbox"/> Screening <input checked="" type="checkbox"/> Integration

Fixed Income - Government

Describe the impact on:	Impact	Strategies considered
<b>Funds' ESG performance</b>	<input checked="" type="radio"/> Positive <input type="radio"/> Negative <input type="radio"/> No impact	<input checked="" type="checkbox"/> ESG incorporation (actively managed funds)

- None of the above

**FI 16.2** Describe how you are able to determine these outcomes.

Due to KfW's sustainable investment approach as described above, performance can be evaluated by the following aspects:

- ratings are relative - upgrades or downgrades can happen even if an individual issuer's sustainability rating has not changed
- the liquidity portfolio experiences an average of approx. 10 monthly rating changes
- limits can be exceeded: if limits are exceeded there exists no forced selling language but further investments in bonds of that issuer are blocked immediately
- overall portfolio effect: total limit volume is reduced by approx. 7% that equals an available limit volume of more than € 3 bn
- portfolio distribution depending on sustainability ratings is reviewed regularly. The portfolio is strongly overweight in bonds of issuers with a "good" or "average" sustainability rating.
- Our engagement process has positive effects on issuers' awareness as to the importance and relevance of sustainable business practices within their company.



FI 17	Voluntary	Descriptive	PRI 1
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FI 17.1	Provide examples of ESG issues that affected your fixed income investment view and/or performance during the reporting year.
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ESG issue 1

	Fixed Income - Corporate and/or Government
<input checked="" type="checkbox"/> Corporate	
<input type="checkbox"/> Government	
	ESG issue and explanation
	exclusion criteria applied. A bank was excluded from the portfolio universe due to its equity stake in a gambling company.
	ESG incorporation strategy applied
<input checked="" type="checkbox"/> Screening	
<input type="checkbox"/> Thematic	
<input type="checkbox"/> Integration	
<input type="checkbox"/> Combination of ESG incorporation strategies	
	Impact on investment view or performance
	New investments in bonds of this bank have been blocked. In the course of 2014, the equity participation has been sold, therefore the bank is now eligible for new bond investments.

ESG issue 2

Fixed Income - Corporate and/or Government
<input checked="" type="checkbox"/> Corporate <input type="checkbox"/> Government
ESG issue and explanation
<p>exclusion criteria applied. A bank was excluded from the portfolio universe due to its equity stake in a controversial weapon producer.</p>
ESG incorporation strategy applied
<input checked="" type="checkbox"/> Screening <input type="checkbox"/> Thematic <input type="checkbox"/> Integration <input type="checkbox"/> Combination of ESG incorporation strategies
Impact on investment view or performance
<p>New investments in bonds of this bank have been blocked. Currently, there is no exposure to this issuer in our liquidity portfolio.</p>

ESG issue 3

Fixed Income - Corporate and/or Government
<input type="checkbox"/> Corporate <input checked="" type="checkbox"/> Government
ESG issue and explanation
sustainability rating downgrade
ESG incorporation strategy applied
<input type="checkbox"/> Screening <input type="checkbox"/> Thematic <input checked="" type="checkbox"/> Integration <input type="checkbox"/> Combination of ESG incorporation strategies
Impact on investment view or performance
<p>Due to the deteriorated sustainability performance of this country, its sustainability rating was reduced from "good" to "average". On that background, the available bond limit volume for this issuer was reduced by 10% (before: no reduction).</p>

ESG issue 4

Fixed Income - Corporate and/or Government
<input checked="" type="checkbox"/> Corporate <input type="checkbox"/> Government
ESG issue and explanation
sustainability rating upgrade
ESG incorporation strategy applied
<input type="checkbox"/> Screening <input type="checkbox"/> Thematic <input checked="" type="checkbox"/> Integration <input type="checkbox"/> Combination of ESG incorporation strategies
Impact on investment view or performance
<p>Due to the improved sustainability performance of this bank, its sustainability rating was upgraded from "relatively poor" to "average". This implied an increase in available limit volume for this issuer. Before: limit reduction by 30%, after the upgrade: limit reduction by 10% only.</p>

ESG issue 5

## Communication

FI 18

Mandatory

Core Assessed

PRI 2,6

FI 18.1

Indicate if your organisation proactively discloses information on your approach to ESG incorporation in all fixed income investments.

We disclose it publicly

Provide URL

<https://www.kfw.de/nachhaltigkeit/KfW-Group/Sustainability/Sustainable-Banking-Operations/Sustainable-Investment/>

Provide URL

<https://www.kfw.de/nachhaltigkeit/KfW-Group/Sustainability/>

FI 18.2

Indicate if the information disclosed to the public is the same as that disclosed to clients/beneficiaries.

Yes

FI 18.3

Indicate the information your organisation proactively discloses to clients/ beneficiaries and the public regarding your approach to ESG incorporation.

- Broad approach to ESG incorporation
- Detailed explanation of ESG incorporation strategy used

FI 18.4

Indicate how frequently you typically report this information.

- Quarterly or more frequently
  - Between quarterly and annually
  - Less frequently than annually
  - Other, specify
- No
- We disclose it to clients/beneficiaries only
  - We do not proactively disclose it to the public and/or clients/beneficiaries

## Engagement in fixed income investments

### Fixed Income - Corporate

FI 19

Voluntary

Descriptive

PRI 2

FI 19.1

Indicate if you engage with corporate issuers.

Yes

FI 19.2

Describe your organisation's approach to engagement in corporate fixed income.

A key component of the Principles for Responsible Investment is engagement. The goal pursued here is to demand an active approach to ESG issues on the capital market, promote the acceptance of sustainable investments and support the implementation of the PRI through the adoption of appropriate disclosure and reporting practices.

Since we do not hold any shares as part of our securities investments, and is therefore unable to encourage the enterprises towards more sustainability through the active exercise of voting rights, we rely chiefly on dialogue with the issuers of the liquidity portfolio.

Our sustainable investment approach focuses on an issuer's sustainability rating in relation to the sustainability ratings of all other issuers. This means that the issuers are in competition with the other issuers in the liquidity portfolio. Depending on the degree of an issuer's sustainable business practices, his sustainability rating can improve or deteriorate relative to the rating of all other issuers, which has an impact on the investable limit volume for the respective issuer. From our perspective, it is therefore essential to inform the issuers about their current sustainability rating on an ongoing basis, and to encourage them to maintain or strengthen their commitment to sustainability. The template letters to the issuers or ABS-Originators are available here:

[https://www.kfw.de/nachhaltigkeit/PDF/Nachhaltiges-Investment/Letter-Originators\\_E\\_2014.pdf](https://www.kfw.de/nachhaltigkeit/PDF/Nachhaltiges-Investment/Letter-Originators_E_2014.pdf)

[https://www.kfw.de/nachhaltigkeit/PDF/Nachhaltiges-Investment/Letter-ABS-Originators\\_E\\_2014.pdf](https://www.kfw.de/nachhaltigkeit/PDF/Nachhaltiges-Investment/Letter-ABS-Originators_E_2014.pdf)

Happily, many issuers take up our offer of dialogue and initiate measures to improve their sustainability assessment or increase the transparency of their sustainability activities.

No

## Fixed Income - Government

FI 20	Voluntary	Descriptive	PRI 2
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FI 20.1	Indicate if you engage with government issuers such as government departments (national or local), agencies and other entities in order to influence their approach to ESG issues that may affect creditworthiness.
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Yes

No

FI 20.3	Additional information.
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KfW is owned by the German Federal government and the Federal states. Therefore, it does not consider itself mandated to engage with other sovereign entities.