

Business

Financing with vision. Systematic evaluation.

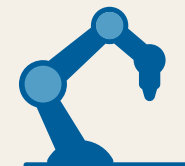
KfW Group is committed on behalf of the state to improving economic, social and environmental conditions in Germany, Europe and the world. The financing it provides contributes to solving global challenges such as climate and demographic change and globalisation. In future, it will also become more active in the area of digitalisation. A consistent focus is on promoting forward-looking projects that effectively advance sustainable development.



EUR 76.5 billion
commitment volume 2017



43% of the commitment volume for
climate action and environmental protection



17% of the commitment volume for
globalisation and technical progress

Business activity of KfW

[KfW Group has set itself the target of delivering sustainable improvement to economic, social and environmental conditions around the world. As a promotional bank, KfW supports change and advances forward-looking ideas in Germany, Europe and the world. The institutional framework for KfW's promotional mandate is defined in the Law Concerning KfW (KfW Law).

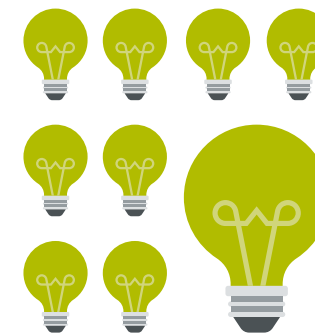
The promotional and financing activities of KfW Group are divided into domestic and international business. The business sectors Mittelstandsbank (SME Bank) and Kommunal- und Privatkundenbank/Kreditinstitute (Municipal and Private Client Bank/Credit Institutions) are active in domestic business. In organisational terms, they are part of KfW without subsidiaries, just like the capital markets business sector and KfW Development Bank. Together with KfW subsidiary DEG, the latter makes up the business sector Promotion of developing countries and emerging economies. KfW subsidiary KfW IPEX-Bank is responsible for the Export and project finance business sector. KfW Development Bank and both KfW subsidiaries DEG and KfW IPEX-Bank are active internationally.

Domestic business

Domestic KfW Group promotion is divided into two business sectors:

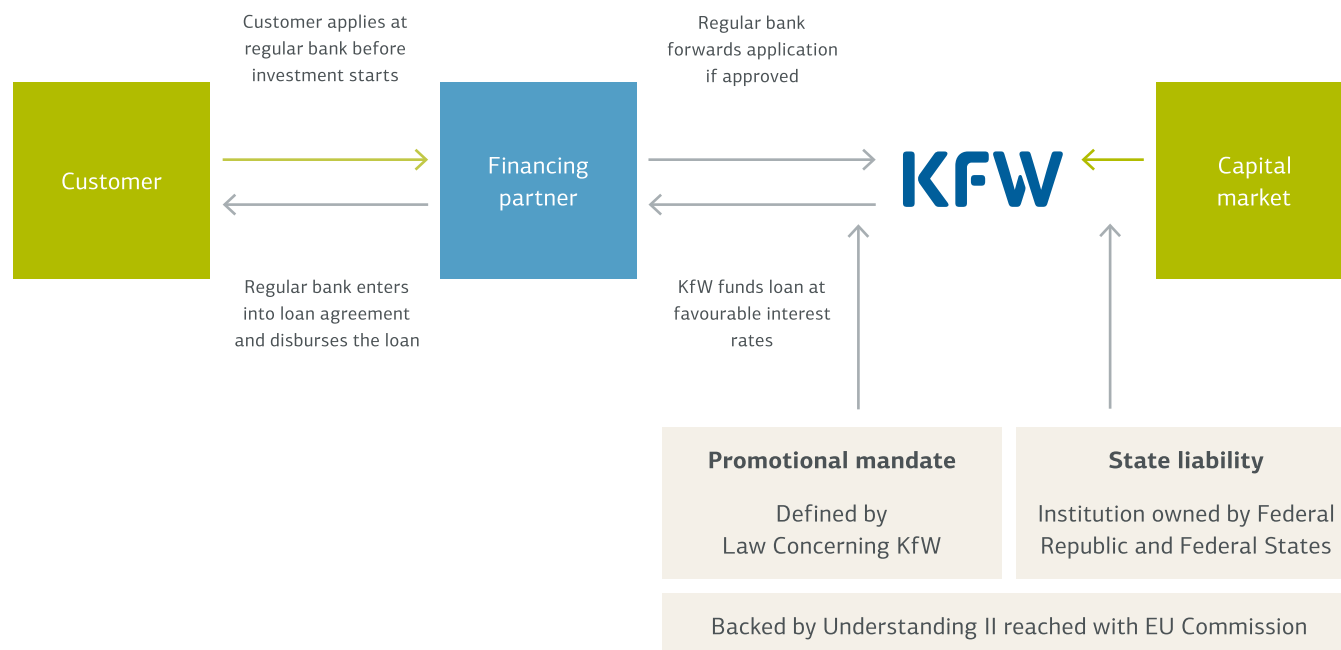
- Mittelstandsbank supports small and mid-sized companies, business founders and start-ups with promotional loans, equity capital and programmes to strengthen equity capital. All of the SME Bank's active equity business will be transferred to an investment subsidiary in 2018. This wholly owned KfW subsidiary will specialise in equity business, working primarily on investments in venture capital funds and venture debt funds.
- In the Kommunal- und Privatkundenbank/Kreditinstitute business sector, KfW promotes private investors and municipalities. KfW funds promotional and commercial banks in Germany and Europe via programme-based or earmarked global loans and structured products. Promotional programmes for private investors focus on new living space and building refurbishment under the aspects of energy efficiency, age-appropriateness and anti-burglary protection. A further priority area is promotional programmes for vocational and continuing education opportunities.

Domestic promotional programmes are usually characterised by the on-lending principle, in which KfW extends loans to commercial banks, which, in turn, lend the funds to the ultimate borrowers at favourable rates. This approach eliminates any need for KfW to have its own network of branch offices. The commercial bank evaluates the customer's application and passes it on to KfW if approved. Exceptions to this on-lending principle for example include public-sector borrowers and grants for private individuals and companies.



As a promotional bank, KfW supports sustainable change and advances forward-thinking ideas

Domestic promotional lending business at KfW



International business

The subsidiary KfW IPEX-Bank is responsible for the Export and project finance business sector. Financing from KfW IPEX-Bank serves to maintain and strengthen the competitiveness and internationalisation of German and European export companies. Furthermore, it finances economic and public infrastructure in Europe. KfW IPEX-Bank contributes to securing raw materials and supports realisation of environmental and climate protection projects at a global level.

The business sector for Promotion of developing countries and emerging economies includes KfW Development Bank and DEG. KfW Development Bank finances and supports programmes and projects that mainly involve public-sector players in developing and emerging economies on behalf of the German Federal Government and other customers, like the European Union. The objective is to support partner countries in combating poverty, securing peace, protecting the environment and the climate, and ensuring fair globalisation. Here, KfW also uses its own funds which it raised on the capital

market. KfW thus supports the Federal Government in meeting its international targets and obligations in alleviating poverty and protecting the climate and environment.

The wholly owned subsidiary DEG, Deutsche Investitions- und Entwicklungsgesellschaft mbH, is also active in the business sector Promotion of developing countries and emerging economies. It finances and organises investments for private companies in developing countries and emerging economies to foster sustainable economic development, ensure local value creation and promote expansion of the private sector.

KfW's key promotional priorities

The primary objective for all KfW Group business sectors is promotion. As a public promotional bank, KfW abides by two promotional principles: subsidiarity and sustainability. Sustainability in this context means that KfW promotion focuses on long-term success. KfW observes the highest ecological and social standards when providing financing. Subsidiarity means that KfW is active in markets that require promotion. In this context, it supports commercial banks in financing projects that would otherwise not be implemented. As a result, KfW's primary areas of growth are fields that exhibit market weaknesses. KfW's own economic growth is not a primary target. Both of these promotional principles are explicit elements of KfW Group's strategic system of targets.

KfW's set of strategic objectives define the company's projected medium-term positioning. This framework encompasses selected top-level targets at overall bank level and serves as a central, binding reference for the strategic orientation of all business sectors with a five-year horizon. This set of targets has existed since 2012 and has been subject to annual review ever since. Corporate Strategy is responsible

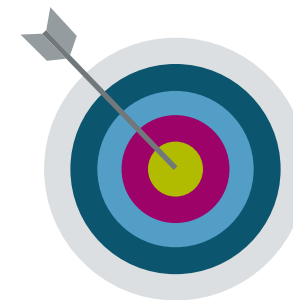
for the strategic objectives which serve as a starting point for the respectively upcoming group business area planning. The strategic targets are incorporated into operational group business area planning so that the objectives defined within the strategic objectives can be achieved over the medium to long term.

Three reporting formats are used to control and steer the strategic target variables over the course of the year. Monthly reports are submitted to the Executive Board, and quarterly reports are submitted to the Board of Supervisory Directors.

- Strategic performance report (primary target promotion, Strategic Controlling is responsible for the report)
- Risk report (secondary target risk and liquidity, Risk Controlling is responsible for the report)
- Financial controlling report (secondary target profitability and efficiency, Financial and Promotional Business Controlling is responsible for the report)

KfW Group focused its promotional activities in 2017 on what it considers to be the socially and economically important megatrends of "climate change and the environment", "globalisation and technological progress", and "demographic and social change", which are anchored in its set of targets. KfW Group is also engaged in other areas of non-trend-related promotion. In order to reduce global poverty, KfW Development Bank has been supporting the German Federal Government in financing and implementing development projects. Another priority area for KfW is the promotion of SMEs and business founders in Germany.

To address the special importance of the "climate change and the environment" megatrend, KfW has set an environmental commitment ratio of around 35% of its total promotional business volume. In fiscal year 2017, the Group environmental commitment ratio was exceeded considerably at 43%.



KfW focused its promotional activities on the megatrends anchored in its strategic targets

The following table demonstrates how the commitments in KfW's business sectors during 2017 are distributed among the megatrends anchored in the strategic objectives. Matters defined as being essential to KfW's business activity within the framework of the materiality analysis and their effects on

the aspects subject to reporting are also reflected in the table. The commitment volume for the essential aspects is distributed among the megatrends listed in the table on p. 35 as follows.

Assignment of key sustainability issues to the megatrends anchored in the strategic targets

Key issues 2017	2017 megatrends
Financing: climate action and environmental protection	Climate change and the environment
Financing: alleviating poverty	Non-trend-related promotional issues, poverty alleviation (KfW Development Bank)
Financing: SMEs and business founders in Germany	Climate change and the environment, globalisation and technological progress, demographic and social change, non-trend-related promotional issues
Financing: globalisation and technological progress	Globalisation and technological progress
Financing: demographic and social change	Demographic and social change

43%
of the commitment
volume for climate action
and environmental
protection

The product range for domestic promotional business mainly consists of promotional programmes focused on specific topics. The table on p. 36 shows the particularly high-volume promotional products for domestic promotional business and lists the respective megatrends to which they are assigned based on the promotion approach.

At KfW IPEX-Bank, KfW Development Bank and DEG, the key products are defined by their financing characteristics; financing decisions are made at individual project level.

For KfW Development Bank, all co-financed projects directed towards climate action and environmental protection are assigned to this megatrend; all other financing is assigned to the priority area of "alleviating poverty", which counts among the trend-independent promotional issues. By analogy financing from DEG and KfW IPEX-Bank not assigned to the "climate change and environment" megatrend is essentially assigned to the "globalisation" megatrend.] ✓

KfW Group commitment volume according to business sectors and 2017 megatrends¹ in EUR billion



	Business sector Mittelstandsbank	Business sector Kom- munal- und Privatkun- denbank/Kreditinsti- tute	Business sector Export and project finance	Business sector Promotion of developing countries and emerging economies		Total commitment volume
				KfW Development Bank	DEG	
Total commitments	21.9	29.9	13.8	8.2	1.6	76.5 ²
Including climate change and the environment (environmental commitment ratio) ³	10.2 (47%)	15.9 (53%)	2.0 (15%)	4.5 (55%)	0.6 (36%)	33.2 (43%)
Including globalisation and technical progress	2.0	0.3	9.9	n.a.	1.0	13.2
Including demographic and social change	1.3	7.4	n.a.	n.a.	n.a.	8.7
Including non-trend- related promotional issues	8.4 (primarily start-ups and general corporate finance)	6.4 (e.g. infrastructure finance)	1.8 (primarily bank refinancing)	3.7 (alleviating poverty)	n.a.	21.4

¹ Deviations in the sums are due to rounding differences

² Also includes commitments in the capital market business sector in the amount of EUR 1.5 billion, of which EUR 0.3 billion are attributable to climate change and the environment and EUR 1.2 billion to non-trend-related promotional issues. Adjusted for commitments in Export and project finance from KfW programme loans

³ Percentage of total commitments for the business sector or area



Megatrend	Mittelstandsbank (SME Bank)	Kommunal- und Privatkundenbank/ Kreditinstitute (Municipal and Private Client Bank/ Credit Institutions)
Climate change and the environment	Renewable Energy programmes (3.9); KfW Energy Efficiency programmes (5.7)	Energy-efficient Construction and Refurbishment programmes (14.2)
Globalisation and technological progress	ERP Digitalisation and Innovation Loan (1.5)	n.a.
Demographic and social change	ERP start-up loan (proportion of company successions: 1.3)	KfW Home Ownership Programme (4.2); Federal Education and Training Assistance government loan (1.0)
Non-trend-related promotional issues	KfW Entrepreneur Loan (5.1); ERP start-up loan (proportion: 2.4)	Investment loans for municipal and social enterprises (proportion: 1.0), global funding of the promotional institutions of the Federal States (3.9)

¹ Promotional programmes with total commitments in amounts of EUR 1.0 billion or more in fiscal year 2017 are listed

Promotional development of business sectors and areas

Mittelstandsbank (SME Bank)

The volume of new business in the Mittelstandsbank (SME Bank) business sector last year amounted to EUR 21.9 billion (2016: EUR 21.4 billion). This result mainly reflects the high demand for investment loans in the areas of energy efficiency, digitalisation and innovation.

The priority area of general corporate finance fell slightly short of the previous year's level with commitments of EUR 6.0 billion (2016: EUR 6.4 billion). At EUR 3.8 billion, start-up financing once again surpassed the previous year's result (2016: EUR 3.6 billion) despite a general downturn in start-up activities.

Innovation financing was well above the previous year's figure (2016: EUR 0.6 billion) with commitments of EUR 2.0 billion. In July 2017, KfW expanded this priority area to include the priority area of digitalisation and launched the new ERP Innovation and Digitalisation Programme, which provides even better support for SMEs investing in this area. The commitment volume here was around EUR 1.5 billion in 2017.

By further developing its ERP Venture Capital Fund investments and subscribing to its participation in High-Tech-Gründerfonds III (HTGF III), KfW took the first steps towards realigning equity financing in 2017. In future, the financing

offering in the venture capital segment will be pooled and substantially expanded in a separate subsidiary. A total of around EUR 2 billion is to be made available over the next ten years via venture capital funds for growth-oriented high-tech companies.

The environment priority area delivered a promotional business volume of EUR 10.2 billion in 2017 (2016: EUR 10.7 billion), of which EUR 5.7 billion went toward promotional programmes for energy efficiency projects for commercial companies (2016: EUR 5.2 billion). This priority area was strengthened in 2017 by the introduction of a programme to promote corporate investment in the avoidance or utilisation of waste heat. The commitments in the KfW Renewable Energy programme, on the other hand, fell short of the record figure of the previous year (2016: EUR 4.7 billion), but still reached a positive level of close to EUR 3.9 billion.



Expanding start-up infrastructure

The German Federal Ministry for Economic Affairs and Energy (BMWi) and KfW Group are breaking new ground in the expansion of start-up infrastructure in Germany, working with their partner BusinessPilot to launch a pilot phase for a new digital platform for entrepreneurs.

From March 2018, the website www.gruenderplattform.de (“Start-up Platform” in English) will provide aspiring entrepreneurs with tailored support – from the idea, business model and business plan to the selection of suitable promotion and financing. At the same time, the platform also incorporates major players in start-up consultancy and financing from across Germany. The Federal Ministry for Economic Affairs and Energy, and KfW – whose legal mandate includes the promotion of start-ups and consultancy services – thus provide tailored support for all potential entrepreneurs through this start-up platform. Another objective is to eliminate the obstacles during the process of starting a business, encouraging more people to venture into working for themselves and thus helping to stimulate the start-up scene in Germany.

EUR **1.5** million
commitment volume
for the ERP Innovation
and Digitalisation
Programme

Kommunal- und Privatkundenbank/Kreditinstitute (Municipal and Private Client Bank/Credit Institutions)

In the business sector Kommunal- und Privatkundenbank/ Kreditinstitute, the commitment volume of EUR 29.9 billion was again at a very high level (2016: EUR 33.7 billion).

With a commitment volume of EUR 18.9 billion (EUR 2016: EUR 20.8 billion), the priority area of housing once again made the most significant contribution in 2017. In particular the grant programmes for energy-efficient construction and refurbishment and age-appropriate conversion experienced a considerable surge in demand in this area. This accounted for around 59% of the housing commitments (2016: 49%). The simple online application via the new KfW grant portal played a key role in this development.

With a promotional business volume of EUR 3.9 billion (2016: EUR 4.1 billion), infrastructure financing made a stable contribution. A decline in volume due to the special facility "Refugee Accommodation", which had already expired in 2016, was almost fully offset by increased demand in promotion for municipal environmental protection and climate change mitigation.

The priority area of education and social development reached a commitment volume of EUR 2.2 billion (2016: EUR 2.3 billion). The number of promotional commitments rose to 100,291 (2016: 97,830), with a particular increase in demand for the promotional programme Assistance for Professional Advancement.



KfW Construction Award for sustainable construction

As one of the largest promoters of home ownership in Germany, KfW Group introduced the KfW Construction Award in 2003. The aim of the competition is to motivate sustainable private construction and highlight forward-looking trends. The focus in doing so is primarily on promoting energy efficiency, accessibility and living comfort.

On 22 May 2017, the KfW Construction Award was presented in Berlin for the 15th time. Ten winners were awarded a prize fund totalling EUR 30,000. Private developers and building associations who have expanded, converted or modernised a building in the last five years and thus created or modernised living space were invited to apply for the award.

The Kaulsdorfer Kastanienhof complex won the KfW Award in 2017. The Vierseithof historical farm combines rural living in the city, protection of a historical monument, energy efficiency, barrier-free living and community. The construction work on the Kastanienhof complex was financed using funds to promote existing property in the Energy-efficient Refurbishment programme and thus achieved the KfW Efficiency House Monument standard.

100,291
promotional commitments in the area of education and social development

Export and project finance

In the Export and project finance business sector, for which KfW IPEX-Bank is responsible, new business added up to EUR 13.8 billion (2016: EUR 16.1 billion) in 2017 in a highly competitive market environment. These commitments were often concluded in consortia with other banks. The largest commitments in the industry sector came from the Power, Renewables and Water sector department with EUR 2.6 billion, of which a significant portion was accounted for by on- and offshore wind farms. This underscores KfW IPEX-Bank's efforts to make a significant contribution to environmental protection and climate change mitigation.



Deutsche Bucht offshore wind farm

KfW IPEX-Bank participates in the financing of the Deutsche Bucht ("DeBu") offshore wind farm. Together with nine other international commercial banks, the specialist financier is providing the project with about EUR 988 million in debt capital. Northland Power Inc., a listed corporation from Toronto, Canada, owns the 252 MW project in the German part of the North Sea. The total investment volume for DeBu is approximately EUR 1.3 billion. After its completion, DeBu is expected to provide over 178,000 households with green energy.

Financial Cooperation (KfW Development Bank)

KfW Development Bank again increased its commitments substantially. Last year, around EUR 8.2 billion in financing was provided to developing countries and emerging economies on behalf of the German Federal Government (2016: EUR 7.3 billion). Around 55% of financing was earmarked for climate change mitigation and environmental protection projects. Development projects in Africa and the Middle East are financed with nearly 40% of all new commitments; 65% of the federal budget is channelled to this region.

KfW Development Bank currently supports 117 ongoing projects relating to refugees in 28 different countries with an overall volume of EUR 3 billion. A total of EUR 1.2 billion of new commitments was granted for refugee-related projects in 2017. The regional focus of involvement is the Middle East.

Moreover, KfW Development Bank contributes to maintaining global biodiversity with measures that include forest conservation, in particular. Together with partner countries, KfW establishes protection zones, increases measures for fire prevention and monitoring illegal logging, and promotes clarification of land tenure and municipal forest management.

Larger infrastructure projects in particular can have negative effects on and risks for biodiversity. KfW specialists for environmental and social impact assessment are brought in during both the appraisal stage and the execution processes for projects with particularly high risks for the environment and social factors. If necessary, measures for protecting biodiversity are defined and must be implemented by the financed enterprises. Aim: avoiding unwanted risks, and minimising and offsetting remaining effects.

EUR **988**
million for financing
the Deutsche Bucht
offshore wind farm



KfW Development Bank 2017 example projects

Higher education loans in seven Latin American countries

Over 5,000 school children and students have already benefited from the Higher Education Finance Fund (HEFF), which works with microfinance institutions to issue higher education loans in seven Latin American countries.

Working on behalf of the Federal Ministry for Economic Cooperation and Development (BMZ), KfW is the fund's largest shareholder, with the fund forming a pilot initiative within the development bank's portfolio. An external evaluation has now concluded that this tool is successful and also suited to other regions.

KfW founded the HEFF in 2011 to provide young people in Latin America with access to vocational training or higher education. The fund's main goal is to help talented young people from lower-income population groups to receive a higher education. The reasoning for this is that Latin America is a continent where the distribution of educational opportunities is particularly unequal, due in part to the comparatively high number of private schools and universities – an obstacle that is very difficult for children from poorer families to overcome.

HEFF's aim is to tackle this trend by issuing educational and student loans, similar to the services offered by KfW in Germany. To help achieve this goal, KfW has invested a total of EUR 9.3 million in the fund, which is also supported by other donors, such as CAF, a Latin American development bank. The fund itself also works closely with

almost a dozen different microfinance institutions (MFIs) in Bolivia, Costa Rica, the Dominican Republic, Guatemala, Honduras, Paraguay and Peru. The MFIs then issue loans worth an average of USD 3,000 to young people keen to continue their education.

Health centres and schools for northern Afghanistan

After many years of involvement, KfW Development Bank is moving forwards with its commitment to stabilising northern Afghanistan: five projects improving social and medical conditions for the population have now been concluded and handed over to the responsible government agencies in Baghlan Province. A total of 16,000 people are now benefiting from a new health station, a training centre for medical staff and three schools.

Around 12,000 people are benefiting from the new health station in the Khinjan District. The station can treat up to 60 women, men and children per day. Medical staff can now receive training in a new training centre. Professional development training can be provided to around 1,000 nurses, carers and medical assistants there.

Three new schools have been built to improve access to education, particularly for girls. Out of the 3,400 pupils, there are 3,265 girls and 135 boys. The schools are equipped with modern facilities: as well as classrooms, toilets and wells, they also have their own computers and labs.

EUR **8.2** billion
for financing in developing
countries and
emerging economies

Environmental and Social Impact Assessment (ESIA)

DEG

In 2017, KfW subsidiary DEG pledged about EUR 1.6 billion to finance investments by private companies in developing and emerging countries, and thus continued the previous year's positive figure (2016: EUR 1.6 billion). Financing for small and medium-sized enterprises was once again a priority in 2017 with EUR 830 million. Financing for German companies increased significantly to EUR 436 million.



DEG promotes vocational training in the Ethiopian textile industry

An increasing number of clothing manufacturers are being drawn to Ethiopia. Thanks to increasing investments, the Ethiopian textile and clothing sector can quickly make up ground when it comes to technical machinery. But so far, there is a lack of qualified experts and industry-wide awareness of social and environmental standards. The Belgian textile company Van der Erve operates two modern production plants in Ethiopia and is now building a vocational training centre for experts. The project is promoted by DEG, which contributes funds from the German Federal Ministry for Economic Cooperation and Development's *develoPPP.de* programme. The vocational students receive theoretical and practical training in three-month long intensive courses. In addition to skills in printing and labelling of clothing, they also learn about environmental and social standards.

[In order to fulfil the promotional mandate of KfW Group and simultaneously minimise potential negative effects on or risks to people and the environment, KfW subjects all planned projects in developing countries and emerging economies, as well as export and project financing, to an environmental and social impact assessment (ESIA). This commitment is set out in the corresponding KfW sustainability guidelines.

Specific implementation of requirements in the sustainability guidelines is the responsibility of KfW subsidiaries DEG, KfW IPEX-Bank and KfW Development Bank, and is anchored in corresponding work instructions. Amongst other things, these instructions prescribe that experts in environmental and social matters are involved in the assessment and the implementation of new projects with high or significant risks to environmental and social factors.

When focusing on developing countries and emerging economies, as well as on export and project financing the ESIA gauges risks or negative impacts that a project to be financed may have on environmental and social factors and defines measures that prevent, avoid, minimise or compensate for these unwanted effects with the project partner or financed enterprise. The ESIA is a fixed part of assessing projects at KfW Group and is performed according to similar processes and standards in the three above-mentioned organisational units. The ESIA procedure is divided into a screening in which the categories for environmental and social risks are determined, and the assessment itself. If the assessment reveals that the existing environmental and social management plan is inadequate or does not exist at all, additional or new measures are defined and are usually part of an action plan. Its implementation, as well as regular reporting and evaluation of the measures' execution are recorded in the loan agreement. Overall there are currently 20 experts

responsible for ESIA's at KfW Group. They are supported by over 60 technical experts from the sectors. If necessary, specific environmental and social issues are thoroughly addressed during the project appraisal through the assignment of qualified consultants on site together with the project-executing agency or the financed enterprise.

According to the sustainability guidelines of DEG, KfW IPEX-Bank and KfW Development Bank, compliance with both relevant national laws and KfW's assessment criteria contained in the sustainability guidelines are prerequisites for financial commitments. Here, ecological and social standards are applied that are based on internationally recognised standards, including those issued by the EU, the World Bank Group and the International Labour Organization (ILO). Concerns about the protection of human rights also form an integral part of the ESIA.

Training courses about ESIA procedures and standards are regularly offered for project and contract managers and for new KfW Development Bank, KfW IPEX-Bank and DEG staff members and trainees. Follow-up training courses are provided if significant changes are made.] ✓

ESIA process

The first step is the screening, during which KfW Development Bank, DEG or KfW IPEX-Bank categorises a project according to possible environmental and social impacts and risks. Projects are assigned to categories A, B or C according to international standards set out by the World Bank/International Finance Corporation (IFC). The results are reviewed internally by units independent of the respective front-office department. The categorisation determines the content and extent of the assessment.

Project categorisation of potential environmental and social risks of newly committed financing in 2017

	Risk category A (high)	Risk category B (medium)	Risk category C (low)
KfW IPEX-Bank	13	51	182
KfW Development Bank ¹	13	87 ²	210
DEG			
Non-financial sector	9	42 ³	0
Financial intermediaries	164	37	7

¹ An additional 25 projects fall into the category of financial intermediary.

² 10 of these projects are in the B+ category (medium to high risk in some instances)

³ 40 of these projects are in the B+ category (medium to high risk in some instances)

20
employees are
responsible for assessing
the environmental
and social impacts of
KfW financing

The assessment is based on environmental and social impact studies, any requisite sector studies (for example, on resettlement requirements or biodiversity conservation), and documentation of national approvals including stakeholder participation, particularly of those affected by the project. These documents are to be provided by the borrower. To assess social factors and the protection of human rights, it is essential that public information, participation of the locally affected people (local participation) and the handling of critical objections to projects meet international standards and are documented. Projects that are likely to have an unacceptable environmental or social impact that cannot be prevented or mitigated by suitable measures are not eligible for funding.

Measures are usually defined in an environmental and social management plan as a result of the assessment. These are then to be implemented by the project partner or the financed enterprise to protect the environment and people, to prevent unwanted impacts, mitigate them to an acceptable level, or compensate for them. If livelihoods are lost or people must be resettled, a Resettlement Action Plan (RAP) must be devised for those affected based on the results of the participation process. At the very least, it must ensure that the livelihoods of these people are restored. The project partners or financed enterprises are required by KfW to regularly provide detailed reports about the implementation of the agreed measures.

Since 2011, KfW Development Bank has subjected relevant projects to a systematic climate assessment in addition to the ESIA. On the one hand, this concerns development policy risks for the project resulting from climate change as well as a project's potential to contribute to adjustment to climate change. On the other hand, the project's risks and potential concerning climate change mitigation are analysed. An assessment is carried out as to whether greenhouse gases are emitted in significant amounts, how high the levels of emissions are and the mitigation measures that will be necessary to reduce

emissions. One of the development bank's priority areas is also promoting projects with an explicit aim to adjust to climate change or reduce emissions of greenhouse gases.

Complaint mechanisms

[KfW uses incoming complaints as a vital customer-feedback tool to optimise processes and services. They are evaluated quarterly and reported in the form of key findings to the Executive Board. Stakeholders can address questions and complaints on sustainability-related issues to KfW Group via the central e-mail address nachhaltigkeit@kfw.de. All difficult cases, particularly those concerning criminal activities and KfW employee infractions, can also be addressed anonymously to the external ombudsman.

KfW IPEX-Bank introduced its complaint management website in 2016. This provides an opportunity to file complaints regarding environmental and social issues, for example, and can be found at] ✓ → [KfW IPEX-Bank website](#) [as well as the whistleblower system available for incidences of criminal activity. DEG has had an independent complaint mechanism since 2014. An external committee of three international experts assesses the situation and decides whether arbitration proceedings are initiated in warranted cases or the complaint is examined. DEG drew up this mechanism together with the Dutch development bank FMO.

For those who feel negatively affected by Financial Cooperation projects, KfW Development Bank provides an] ✓ → [Online complaints form](#) [in which complaints can be presented in detail. The form serves to document the case, resolve the conflict and help everyone involved develop solutions. As an alternative, those affected in developing countries can directly contact the local office or a German embassy. In addition, all complaints the bank receives through other channels (via e-mail or ombudsman, for example) are also accepted.] ✓

Human rights and indigenous populations

Special attention is given to complaints concerning human rights and indigenous populations. KfW Development Bank processed two such cases in 2017, although one of the submitted cases was not considered an official complaint. The kinds of measures that can be triggered in a particular case become clear when we look at the handling of the only complaint registered through the complaint mechanism. In mid-2015, Amnesty International turned to the general public with a report about forced displacement in the course of preparations for a road construction project in Mombasa, Kenya. At the time, the project was in the preparation phase for support through KfW Development Bank, the African Development Bank (AfDB) and the European Investment Bank (EIB). The subject of the report was the illegality of the displacement without prior detailed information and without compensation for those affected. EIB and KfW determined that forced displacement was, in fact, occurring. This constituted a violation of both banks' standards. And so both banks thus insisted on creating what is known as a Forced Eviction Audit as the basis for the resulting Corrective Action Plan (CAP). In a letter in April 2017, a group of non-governmental organisations (NGOs), including Amnesty International, responded to the shortcomings of the CAP's implementation, the situation surrounding the publication/accessibility of the CAP, and calculation of the compensation payments in a non-transparent manner, as perceived by the NGOs. KfW and EIB are closely monitoring these complaints and are in contact with the project-executing agency Kenya National Highways Authority and with the NGOs. Overall it can be assumed that, if the complaints/shortcomings are confirmed, they can be addressed with targeted measures.

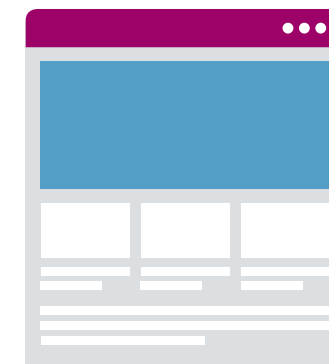
Since 2007, KfW Development Bank has published information about the projects it finances at country and sector levels. Since 1 January 2013, it has provided an online database for research and analysis of promotional projects for development financing with its KfW transparency portal. Current information with a short description of the project is thus

publicly available, clearly presented, easily accessible and can be used for individual evaluation. Since January 2015, DEG has published investment-related information about new financing commitments on its website.

Project evaluation

[KfW (without subsidiaries) has selected promotional programmes for domestic promotional business regularly evaluated by external independent research institutes to determine their promotional effectiveness. Federal programmes and programmes with the greatest relevance due to volume and substantive scope are usually selected for evaluation. The aim of the evaluations is to determine the promotional effects and effectiveness of the respective programmes. The evaluation results are given to the responsible federal ministries and published on the KfW website. They constitute an important basis for quality assurance and further development of the promotional programmes. The method used for evaluation studies is developed for each specific programme and the promotional effects to be measured. This often includes comprehensive empirical surveys.

Financial Cooperation (FC) projects are evaluated with a separate evaluation department in KfW Development Bank as an integral part of the project cycle. It operates independently of the operative FC departments and reports directly to the KfW Executive Board as an administrative unit. The framework for the actual evaluation process is provided by work instructions, technical notes, and sample outlines and processes. Each year, approximately half of all FC projects that have been completed in the past three or so years are evaluated ("ex-post"). The projects are selected in the form of a representative random sample and evaluated on the basis of the key criteria defined by the Development Assistance Committee (DAC) of the Organisation for Economic Cooperation and Development (OECD): relevance, effectiveness, efficiency,



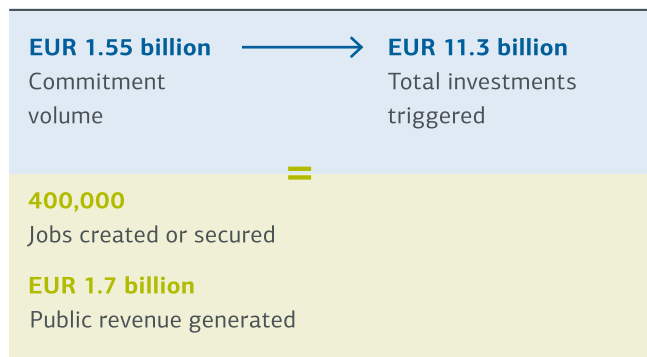
An optimised version of the KfW Development Bank Transparency Portal has been available online since the end of 2017

overarching developmental impact and sustainability. The evaluations are mainly carried out in the form of on-site missions, and the rest are carried out as so-called desk audits based on sufficient information or due to travel bans (for example like those currently in place for Afghanistan and Yemen). In individual cases where travel bans are in place, local experts collect information for KfW as the basis for the desk audit. KfW Development Bank makes the results of the reports on the evaluated FC projects available to the German Federal Government as its client and to the general public in various formats. The Executive Board is also informed of the results of each individual evaluation.

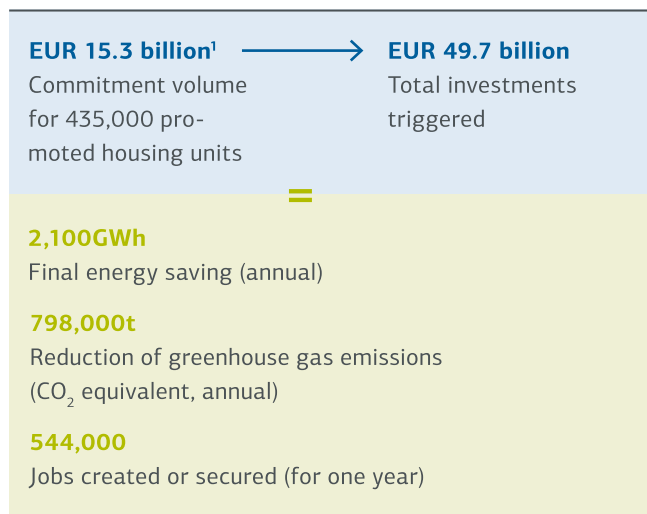
DEG evaluates the effectiveness of its involvement in relation to the promotion of local development and the contributions to the global Sustainable Development Goals (SDGs) with the newly developed Development Effectiveness Rating (DERa). The rating takes cues from international best-practice approaches by predominantly using quantitative and harmonised indicators. The development contributions made by each client are evaluated in five effectiveness categories based on the SDGs: decent jobs, local income, market and sector development, environmental stewardship and community benefits.] ✓

Example of project evaluations

Development effects of DEG financing in 2017



KfW Programme “Energy-efficient Construction and Refurbishment 2016”



¹ The listed commitment volume is only based on the 2016 measures observed during the evaluation. The total commitment volume in the “Energy-efficient Construction and Refurbishment” programmes in 2016 is slightly higher.

Customer orientation

KfW Group offers personal consultation to respond to the huge information needs of customers and interested parties. KfW's infocentre answered a total of 940,000 questions via mail and telephone in 2017. This demonstrates customers' and interested parties' great need for information about KfW financing offers. A total of 51% of all contact concerned education, 40% concerned housing and 9% concerned commercial financing.

The online consultation query (BAN) facilitates the path to finding a financing partner. For the majority of on-lent promotional products for KfW's domestic promotional business, customers can make an appointment with up to three KfW financing partners online. Alongside most savings banks and cooperative banks, large commercial banks in Germany also participate. Thanks to KfW's digital on-lending system (BDO), financing partners can confirm the eligibility of an investment project to the customer electronically, even during the consultation, and reserve the prevailing interest conditions.

Customer satisfaction with the domestic promotional business is assessed as part of KfW's new customer monitoring. Roughly 600 ultimate borrowers and grant recipients are surveyed in this context every month. Along with the external evaluations of the promotional programmes (see p. 44–45), their feedback provides valuable information on how products, processes and services can be aligned more closely to market requirements. For the private customers of commercial and savings banks, the results show that KfW scores far higher than the average in the categories of customer satisfaction and loyalty.

KfW also gathers regular feedback from financing partners as well as from bank associations. The high satisfaction of these key account partners rose again compared to 2016 according to a representative survey carried out in autumn 2017: 64% gave outstanding marks for the service given.

Barrier-free service

We fundamentally strive to provide an accessible website according to the requirements of the → [Barrierefreie-Informationstechnik-Verordnung \(BITV\) ordinance](#), which means we ensure that, from a technical as well as from a content-related point of view, users with impairments (for example, if they are unable to use a mouse, or must use assistive technology such as screen readers) can also access and use the www.kfw.de website.

After the latest version of the website went online in June 2017, a test according to the criteria of the BITV Test was performed. The result was that KfW's website provided "limited access", which means we fulfil over 80% of the barrier-free requirements. We want to rectify the aspects that led to the point deductions as well as we possibly can to at least achieve a rating of "readily accessible" (that means at least 90% of the points in the overall results). This will be verified again with a test after we have implemented a relevant portion of the findings.

Additional key business figures

Key corporate figures of KfW Group

	2013	2014	2015	2016	2017
Operating result after valuation (before promotional expense), in EUR million	2,143	1,953	2,539	2,108	1,669
Profit/loss from operating activity (before promotional expense), in EUR million	1,933	1,973	2,647	2,210	1,667
Consolidated profit, in EUR million	1,273	1,514	2,171	2,002	1,427
Total assets, in EUR billion	464.8	489.1	503.0	507.0	472.3
Volume of lending, in EUR billion	432.0	440.3	447.0	472.4	471.7
Volume of business, in EUR billion	545.4	572.5	587.2	609.2	572.2
Equity, in EUR billion	20.5	21.6	25.2	27.1	28.7
Tier 1 ratio, in %	20.6	14.1	18.3	22.3	20.6

Breakdown of business units in EUR billion

KfW Group¹	72.5	74.1	79.3	81.0	76.5
Domestic promotional business	51.6	47.6	50.5	55.1	51.8
Mittelstandsbank (SME Bank)	22.6	19.9	20.4	21.4	21.9
Kommunal- und Privatkundenbank/Kreditinstitute (Municipal and Private Client Bank/Credit Institutions)	28.9	27.7	30.1	33.7	29.9
Capital markets	0.7	1.2	1.1	1.3	1.5
International business	20.5	25.5	27.9	24.9	23.5
Export and project finance	13.7	16.6	20.2	16.1	13.8
KfW Development Bank	5.3	7.4	6.7	7.3	8.2
DEG	1.5	1.5	1.1	1.6	1.6

¹ Adjusted for commitments made in export and project finance with funding from KfW programme loans (2013: EUR 193 million, 2014: EUR 153 million, 2015: EUR 229 million, 2016: EUR 273 million, 2017: EUR 372 million)