

# »»» Corporate governance

## Sustainable action. Future-oriented promotion.

An integral part of KfW Group's mandate is to work in an economically, ecologically and socially sustainable manner. It is therefore logical that we integrate this responsibility into our corporate governance practices. We want to promote awareness of good corporate governance and perform our functions at a higher quality level and with greater sustainability by holding the management and supervision of our business to exacting principles and standards.



At least **once a year**, KfW reports to the Board of Supervisory Directors explicitly about its sustainability commitment



The **Sustainability Guiding Principles** have constituted the **basic frame of reference** for implementing responsible financing and business processes **since 2012**



KfW is refining its digital strategy in its newly created **'Digital Office'** and **'InnovationLab'**

## Sustainability organisation

Through its promotional measures, KfW helps to improve economic, ecological and social living conditions to bring about sustainable development – at local, national, European and global level. For KfW, sustainability also means, in particular, putting in place viable, self-sustaining economic structures.

### National and international initiatives

KfW Group's business and sustainability strategies are closely connected through its mandate. This commitment is demonstrated by internal principles and the visible support for relevant initiatives. With its 'Statement on environmental protection and sustainable development' to the German Bundestag, KfW committed itself already in 2003 to work towards sustainable development as defined in the German Federal Government's sustainability strategy in all environment-related decisions. Building on that statement, KfW introduced group-wide environmental and social principles in 2006, expanding these into Sustainability Guiding Principles in 2012. These constitute the basic frame of reference for implementing responsible financing and business processes across all business sectors and subsidiaries. The Sustainability Guiding Principles are refined at regular intervals to reflect new challenges. They are scheduled to undergo an in-depth revision in 2018.

KfW Group also aligns itself with international sustainability initiatives. As early as in 1995, KfW Group signed up to the United Nations Environment Programme (UNEP) Statement of Commitment by Financial Institutions (FI) on Sustainable Development. The bank also became a signatory in 2008 to the → [human rights declaration](#) launched by the Business & human rights declaration Centre. As a major financier of climate protection and development projects, KfW is a mem-

ber of the International Development Finance Club (IDFC) and the Association of European Development Finance Institutions (EDFI). KfW IPEX-Bank is also a member of the Equator Principles Association (see p. 11).

### Sustainability in our core business

KfW's Sustainability Guiding Principles include, for example, the requirement to focus about a third (35%) of total new commitment volume on the key area of climate action and environmental protection. This target rate is part of KfW Group's strategic objectives, which define the medium-term target positioning of the bank, and is obligatory for the strategic direction of all business sectors. These principles also define selected top-level objectives (primary objectives) for the bank as a whole.

KfW's Sustainability Guiding Principles also provide a target quota to achieve equal opportunities for women to occupy management positions. The Sustainability Guiding Principles form the basis for thematically focused sustainability guidelines, for example for group-wide in-house environmental protection (see p. 72) and responsible procurement (see p. 81).

The subsidiaries' sustainability guidelines are subordinated to the group Sustainability Guiding Principles and specify their directives as they relate to the specific business sectors. This applies equally to the sustainability guidelines of KfW Development Bank and KfW IPEX-Bank and to the environmental and social guidelines of DEG, as well as to the joint sustainability guidelines of Mittelstandsbank (SME finance) and Kommunal- und Privatkundenbank/Kreditinstitute (Municipal and private loans/credit institutions), which has been in effect since 2009.

In its 'Declaration of KfW Group on respect for human rights in its business operations', KfW has committed to respecting and protecting human rights in its sphere of influence since 2008

## Responsibility and organisation

The Sustainability Guiding Principles of KfW Group are adopted by the Executive Board, which reports any changes to the Board of Supervisory Directors. The Group Environment and Sustainability Officer and the sustainability officers of organisational units cooperate in developing proposals for Executive Board decisions. In addition, the formulation and implementation of KfW's Sustainability Programme generates new policies and measures for specific themes from the two thematic areas 'sustainable finance' and 'sustainable bank operation'. Depending on their area of activity, they are decided in part by the persons responsible for the respective market areas or central units and in part by the Executive Board. The Sustainability Report is also released by KfW's Executive Board and presented to the Board of Supervisory Directors for information.

The Sustainability Guiding Principles are implemented via a management system that defines responsibilities and procedures. Overall responsibility for KfW's sustainability strategy and communication lies with the Chief Executive Officer, who also exercises the function of Chief Environmental Officer. Together with the respective Executive Board members and the management boards of DEG and KfW IPEX-Bank, he thereby also ensures operational implementation of the sustainability-related aspects with a view to sustainable financing transactions and sustainable bank operation.

He is assisted by the Group Environment and Sustainability Officer, the In-House Environmental Protection Officer and 15 sustainability officers from the relevant organisational units. The Group Environment and Climate Steering Committee (KUK) facilitates group-wide exchange on financing activities in the area of climate action and environmental protection, and provides impetus for the further development of procedures and standards for environmental and social

impact assessments. Its members include, among others, the Group Environment and Sustainability Officer and the sustainability officers from the individual business sectors and subsidiaries as well as the responsible operational managers from all market segments of the bank. The Group officer and the four local officers for in-house environmental protection coordinate relevant in-house environmental protection matters in the task force on business ecology. This task force also directs the further development of the Sustainability Programme as it relates to in-house environmental protection (see p. 19).

## Corporate governance

KfW's five-member Executive Board, which has been headed by Dr Günther Bräunig since 1 January 2018, is responsible for managing business in accordance with the Law Concerning KfW, the KfW Bylaws and the procedural rules. A schedule of responsibilities stipulates the business responsibilities. Significant changes require the approval of the Presidial and Nomination Committee. As a public-law institution, KfW adheres to the principles of the Public Corporate Governance Code of the German Federal Government (PCGC). KfW explains how it fulfils these principles in its annual declaration of compliance in the Annual Report. For majority shareholdings, KfW assesses whether shareholder resolutions are consistent with the bank's Sustainability Guiding Principles.

KfW regularly offers its Executive Board members training, for example when they are inducted to their new position. This is also done on the basis of an existing policy of informing the Executive Board about relevant legal (regulatory) requirements and obligations.



KfW's sustainability management is supported by 15 sustainability officers from different business units

## Remuneration

Based on the remuneration system of KfW Group, the Executive Board members – one of whom is a woman – are appropriately compensated in accordance with their duties and responsibilities. Only the Chief Executive Officer received variable compensation in the financial year 2017. This is tied to a set of targets which the Chief Executive Officer agrees with the Chair of the Presidial Committee and their deputy and which includes the promotional – and thus sustainability-related – targets. The members of the Board of Supervisory Directors are paid a remuneration, the amount of which is determined by the authority exercising legal supervision in accordance with Article 7 (10) of the KfW Bylaws. Further details on remuneration are contained in the Financial Report 2017, p. 183–186.

The Remuneration Committee of the Board of Supervisory Directors deals with remuneration matters, also in the interest of the shareholders as important stakeholders. In particular, it deals with the appropriate structure of the compensation systems for the KfW Executive Board and employees and advises the Presidial and Nomination Committee on remuneration of the Executive Board members.

## Supervisory bodies

Several institutions are involved in supervising KfW Group. The supreme governing body is the Board of Supervisory Directors. According to the Law Concerning KfW, it is composed of 37 members, including six women at present (16.2%). It is chaired in alternating years by the Federal Minister of Finance and the Federal Minister for Economic Affairs and Energy. The KfW Executive Board consults with them on key questions regarding corporate governance and strategy. The Board of Supervisory Directors meets at least three times a year. The Executive Board informs the Board of Supervisory Directors about all relevant aspects of planning,

business development, risk position and management as well as the financial situation. Once a year it also informs explicitly about sustainability topics. With the exception of the Federal Ministers, the members of the Board of Supervisory Directors are appointed for three years; every year one third of the members are replaced. To avoid conflicts of interest, they may not have any business or personal relationships with KfW or its Executive Board.

The Board of Supervisory Directors maintains four committees which make their work more efficient: the Presidial and Nomination Committee, the Remuneration Committee, the Risk and Credit Committee, and the Audit Committee (for the individual duties please see p. 24 of the Financial Report). The Presidial and Nomination Committee evaluate the performance of the Board of Supervisory Directors and the Executive Board annually (pursuant to section 25d (11) of the German Banking Act). To expand their knowledge with regard to their role or regulatory matters, KfW offers the members of the Board of Supervisory Directors quarterly training courses by external experts. It also provides a budget for their participation in external events.

The SME Advisory Council (Mittelstandsrat) specifies the state mandate of KfW for the support of small and medium-sized enterprises. The Executive Board apprises the Council at least once a year about programmes that are underway or planned for the medium term, and submits alternative proposals on request. The SME Advisory Council is composed of eleven representatives or appointed members of the German Federal Government and is chaired by the Federal Minister for Economic Affairs and Energy. The Supreme Audit Institution (Bundesrechnungshof) and the Federal Financial Supervisory Authority (BaFin) also exercise further oversight functions. KfW is also subject in parts to the regulatory standards of the German Banking Act (KWG).



The Board of Supervisory Directors is the supreme governing body of KfW Group. It is regularly informed about the bank's sustainability commitment

## Risk management

The Executive Board is responsible for central decisions regarding risk policy. Consistent with the business strategy, a risk strategy is determined annually and thereby defines the framework for business activity with regard to risk tolerance and risk-bearing capacity. Adherence to the risk strategy is monitored continuously. The bank's overall risk situation is comprehensively analysed in monthly risk reports to the Executive Board. The Board of Supervisory Directors is informed at least quarterly. Risk management within the group is exercised by closely interlinked decision-making bodies. Below the Executive Board, three risk committees prepare the Executive Board decisions and make independent decisions within their remits.

- The Credit Risk Committee makes weekly credit decisions and prepares these for the Executive Board or the Risk and Credit Committee. In quarterly extended sessions it decides about any changes in the methods for assessing credit risk. It also monitors industry- and country-related risks.
- The Market Price Risk Committee, which convenes monthly, makes decisions on, among other things, the assumption of market price risks, changes in risk measurement methods and the valuation of securities. It also prepares decisions for Executive Board decisions on interest rate risk positions, transfer pricing and funding strategy.
- The Operational Risk Committee is responsible for managing and monitoring operational risks (OpRisk) and reputational risks, crisis-prevention measures and monitoring emergency planning. Actual and potential OpRisk damage is discussed quarterly. The Committee also decides on risk guidelines, methods and instruments within its remits.

### Sustainability risks

KfW Group also considers the risks its business decisions have for its ecological and social environment. This is the case when it introduces new promotional programmes, credit lines or facilities, when it undertakes initiatives in conjunction with third parties, and when it decides on financing individual projects. It assesses potential risks with a view to the environmental and social sustainability of the financed projects and its reputation.

In order to prevent potentially negative impacts or risks to human health and the environment and to mitigate or offset them with suitable measures, KfW Group's standard practice is to undertake environmental and social impact assessments (ESIA) of planned promotion and financing operations in emerging and developing countries as well as export and project finance transactions (see p. 41–43).

Reputational risks play an important role in the context of sustainability. They are categorised within the group as a separate, significant risk type and thus subject to the risk management cycle. KfW identifies potential reputational risks each year at group level and has them internally evaluated by experts for individual stakeholder groups. According to the guidelines on risk reporting, the group risk report addresses significant new reputational risks or trigger events. This report is presented to the Board of Supervisory Directors, the Federal Ministry of Finance (BMF), the Federal Ministry for Economic Affairs and Energy (BMWi) and the Financial Supervisory Authority. Particularly critical issues are addressed in the form of ad-hoc reports to the Executive Board.



KfW Group's standard practice is to analyse the risks its business decisions have for its ecological and social environment

# Compliance

[ KfW Group defines clear expectations for the actions of its employees as well as its business partners and suppliers. Integrity is the basis for the trust that business partners, customers, shareholders and the public have in KfW Group. It presupposes compliance with all relevant statutory and regulatory provisions and with all internal requirements. This explicitly includes compliance with statutory regulations and provisions that apply to corruption, the environment, social and economic matters and other offences.

In addition to the pertinent statutory and supervisory bases, ] ✓  
→ [KfW's mission statement](#) [ forms the basis for ethical corporate conduct. It describes the values which our employees are committed to: responsibility, fairness, professionalism, initiative, and transparency. The mission statement makes reference to other initiatives that shape KfW's corporate culture, including the Code of Conduct. The Group Compliance Guidelines describe how all corresponding integrity and compliance guidelines are to be implemented.

KfW Group has incorporated the fight against corruption and other offences into its Sustainability Programme as a continuous objective. Continuing education measures are in place to enhance expertise in the area of governance and compliance.

## Organisation and functions

The Executive Board is responsible for compliance within KfW Group. The Compliance unit ensures group-wide operational implementation. It operates independently of other divisions and aligns the existing compliance management system with changing laws and market trends. In accordance with the Minimum Requirements for Risk Management (MaRisk), the Compliance unit is the central area responsible for recognising legally relevant developments early on, preparing decisions by the responsible bodies and ensuring via monitoring that all legal requirements are met. Implementation lies with, among others, a Compliance Board and a Compliance Management Board, which are composed of representatives of the parent companies and subsidiaries.

With respect to content, the KfW Compliance unit focuses on the prevention of fraud and corruption, money laundering and the financing of terrorism, compliance with financial sanctions and embargoes, securities compliance, document organisation as well as data protection, information security, physical security, digital forensics and regulatory compliance.

### Fight against corruption and fraud

KfW has explicitly incorporated the preventive fight against corruption, fraud and other offences in its mission statement and Code of Conduct, and it takes a zero-tolerance approach. A Fraud and Corruption Prevention Officer who reports to the Chief Executive Officer conducts annual risk analyses for every business sector and assesses the risks associated with individual costumers/business partners, products, processes, transactions and countries. The analysis of country risks also takes into account the Corruption Perceptions Index published each year by the non-governmental organisation Transparency International.

Corruption risks typically exist in the approval of loans or subsidies, in procurement and in the award of contracts. No confirmed case of corruption was recorded in the reporting year.

The work of the Fraud and Corruption Prevention Officer undergoes an annual compliance audit by the internal auditing department, as well as other reviews.

At organisational level, KfW Group is committed to the fight against corruption as a corporate member of Transparency International. Furthermore, DEG is a sponsoring member of the Extractive Industries Transparency Initiative (EITI) on behalf of KfW Group. KfW cooperates with the Federal Ministry for Economic Cooperation and Development (BMZ) in implementing the strategy on anti-corruption and integrity in German development policy.

### Code of conduct and training

The guideline for legal and ethical conduct at KfW Group is the Code of Conduct. It applies group-wide and is binding for all employees as well as the Executive Board, comprising succinct and understandable key rules of conduct as well as the employees' duty to cooperate. A link to the intranet points to more detailed information on each topic. It provides specific work instructions, for example on the prevention of offences and on the acceptance of gifts and invitations, as well as practical examples and conduct rules.

A revised Code of Conduct applies additionally for members of the KfW Executive Board. It regulates the handling of conflicts of interest, acceptance of gifts, invitations to events, performance of ancillary activities and the acceptance of honorary posts.

However, KfW raises awareness of compliance risks and lawful conduct in many ways. Risk-based online and face-to-face training courses on the bank's fraud and corruption prevention policy are mandatory for all employees. Courses are held every year or every two years and as needed through specific information letters. In 2017 as well, the bank held in-house events to raise awareness of major aspects of corporate culture such as acting with integrity, among other aspects. KfW informs its business partners about compliance risks using product data sheets, information sheets and other contract components. It also informs the members of the Board of Supervisory Directors periodically about measures currently being undertaken to fight fraud and corruption.



Zero tolerance  
of corruption, fraud  
and other offences

In cases of suspected offences or misconduct, employees may contact their line manager and/or the Compliance unit itself via a hotline or email – confidentially if they wish or via an external ombudsperson. The contact details for all contact persons can be found in the Code of Conduct and other resources. A regular process is in place that allows KfW to rigorously investigate all suspected compliance violations.

Suspected compliance violations received by KfW's Complaints Management are forwarded to the Compliance unit, where they are investigated further. The Executive Board is notified of these suspected violations and all other suspected compliance violations. It receives an aggregated quarterly report about all suspected violations. The Executive Board also receives ad-hoc reports in the event of prominent cases of suspected violations depending on factors such as amount of loss or employee involvement.

Our understanding of ethical conduct also includes the aspect of political donations. According to its donation guidelines, KfW does not provide financial support or other allowances to political parties including organisations that are affiliated with parties. ] ✓

### **Money laundering prevention and data protection**

An in-house Anti-Money Laundering Officer coordinates preventive measures against money laundering and terrorism financing. Among other things, the officer is responsible for organisational instructions, conducting risk analyses, implementing risk-based prevention measures and the regular checking of the business-partner database and transactions against the currently relevant sanction lists. KfW immediately reports all suspicious transactions or situations to the responsible investigating authorities. The Anti-Money Laundering Officer reports directly to the Executive Board.

Giving due consideration to banking secrecy, KfW complies with statutory technical and organisational data-protection requirements. Group-wide regulations ensure the security of personal data.

### **Internal Auditing**

KfW's Internal Auditing (IA) department ensures that risks are recognised, assessed, managed and monitored. It is part of internal controlling procedures and reports directly to the Chief Executive Officer (CEO). Increasing external regulation is leading to changing business processes. It is therefore essential that IA takes measures to keep up with these changes, for instance, by hiring additional personnel. Within the course of an audit, IA also monitored the process of preparing KfW's non-financial statement and ensuring legally compliant implementation.



## Digitalisation at KfW

Digitalisation is one of the large megatrends of our time. Particularly as a tool for developing innovative services, it has links to sustainability that are also reflected in the work of KfW Group. Thus, KfW sees the technological trends and applications that make up digitalisation as an opportunity for improving its promotional services. KfW Group therefore supports digitalisation in Germany and abroad, and it is also pushing ahead with the digital transformation of KfW itself.

The growing digital management of promotional processes not only reduces costs and paper consumption; it also supports customers in Germany – many of whom are SMEs – on their own digitalisation roadmap. It thus promotes growth, productivity, competitiveness, innovative start-ups and new business models in Germany in a targeted manner. Digital technologies can speed up and make social and economic development processes more efficient in international cooperation as well, and they can steer them in an ecologically more sustainable direction. Technological advances can overcome centralised structures in recipient countries and close development gaps more quickly (more on this topic in the [→ online magazine](#)).

### Internal challenges

Digitalisation is also playing an increasingly important role in KfW's own bank operations, for example in human resources development and change management. This primarily involves the changes in cooperation, management and communication which digitalisation generates in the long term. Digitalisation is also becoming more relevant in facility management, for example by enabling modern and energy-efficient building control systems.

A newly created 'Digital Office' and an 'InnovationLab' are developing KfW's digital strategy internally and externally to allow all business sectors to benefit from it systematically. The InnovationLab, for example, aims to promote innovation and agile cooperation in an attractive and flexible working environment. It makes intensive use of methods known as design thinking.



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