

# »»» Strategy

## Think strategically. Act responsibly.

At the core of KfW Group's strategy is the goal of sustainable development – in our domestic operations and in our international activities. We continuously expand the sustainability strategy and its main thematic areas in regular dialogue with stakeholders. A comprehensive annual Sustainability Programme helps to implement the goals in our operations.



**12 internal and external participants** discussed the topic of human rights at the KfW Stakeholder Round Table 2017



KfW's materiality analysis identified **15 relevant aspects**



The Sustainability Programme 2018 comprises some **80 measures**

Since it was founded in 1948, KfW Group has been committed to achieving sustainable development and lasting improvements to people's living conditions on behalf and as a partner of the Federal Republic and the Federal States. Promotion is KfW Group's primary mandate. In addition to the principle of subsidiarity, it pursues the goal of sustainable development. KfW's business and sustainability strategy are therefore closely linked. Sustainability Guiding Principles for both the group and individual business sectors and subsidiaries constitute the orientation framework for the responsible design of financing operations and business processes (cf. chapter 'Corporate governance').

In Germany KfW Group has offices in Frankfurt am Main, Berlin, Bonn and Cologne. Its global network comprises some 80 offices and representations.

KfW exercises a steering function for the state. It is required to perform the tasks set forth in the Law Concerning KfW, which was enacted in 1948 and has since been frequently amended to account for current needs, most recently in 2013.

In addition to KfW, the group's main operating subsidiaries are KfW IPEX-Bank GmbH (KfW IPEX-Bank), which provides project and export financing, and DEG – Deutsche Investitions- und Entwicklungsgesellschaft mbH (DEG), which promotes the private sector in developing countries and emerging economies. Both are 100 per cent subsidiaries of KfW.

Finanzierungs- und Beratungsgesellschaft mbH (FuB) performs special tasks for the Federal Government, while Technologie-Beteiligungs-Gesellschaft mbH (tbG) handles old equity finance business. Both are also 100 per cent subsidiaries of KfW. KfW holds strategic participations of 26% and 25% respectively in the German Energy Agency GmbH (dena) and the Berlin Energy Agency GmbH (BEA). It holds further strategic participations in the following enterprises: True Sale International GmbH (TSI, 7.7%), European Investment Fund (EIF, 2.3%), GZBV Verwaltungs-GmbH (100%) and GZBV mbH & Co. KG (84.3%).

KfW regularly consults with international banks, works closely with other development banks and supports governments of other countries in establishing promotional banks, for example in Greece and Portugal.

It also holds shares in the former state-owned enterprises Deutsche Post AG (20.7%) and Deutsche Telekom AG (17.4%) under holding arrangements mandated by the Federal Government. Through assignment by the Federal Government KfW also indirectly holds 11.1% of the voting rights in Airbus Group. Since 2013 it has consolidated its social engagement in the legally independent and operationally active foundation KfW Stiftung.



Sustainability  
as a mandate

## The main products and services provided by KfW Group

Mittelstandsbank (SME finance)	<ul style="list-style-type: none"> <li>– Promotion of SMEs</li> <li>– Financing of industrial pollution control and efficiency measures</li> <li>– Financing of renewable energy</li> <li>– Financing of innovation and digitalisation</li> <li>– Start-up finance</li> <li>– Venture capital financing for technology start-ups</li> </ul>
Kommunalbank and Privatkundenbank/ Kreditinstitute (Municipal and Private Client Bank/Credit Institutions)	<ul style="list-style-type: none"> <li>– Financing for housing construction and modernisation</li> <li>– Education financing</li> <li>– Infrastructure and social finance</li> <li>– Global funding of promotional institutions of the German Federal States (Landesförderinstitute)</li> <li>– Individual financing of banks</li> <li>– Transactions on behalf of the Federal Government</li> </ul>
Export and project finance (KfW IPEX-Bank)	<ul style="list-style-type: none"> <li>– Financing for German and European exports</li> <li>– Financing for projects and investments in German and European interests</li> </ul>
Promotion of developing countries and emerging economies	<ul style="list-style-type: none"> <li>– Promotion of developing countries and emerging economies with federal budget funds and with complementary market funds raised by KfW (KfW Development Bank)</li> <li>– Financing provided by DEG – Deutsche Investitions- und Entwicklungsgesellschaft mbH (private sector promotion)</li> </ul>

### Promotion of sustainable development

KfW Group's financing business contributes to achieving the Sustainable Development Goals (SDGs) of the United Nations – the internationally recognised reference framework for sustainable development. It does so by financing key areas of promotion: climate action and environmental protection, innovation, small and medium-sized enterprises and start-ups, infrastructure investments by municipalities, communities and municipally owned enterprises, student and educational loans, export and project finance as well as the promotion of developing countries and emerging economies.

KfW aligned its promotional activities in 2017 in particular with the socially and economically important megatrends of 'climate change and the environment', 'globalisation and technological progress', and 'demographic change'. KfW also addresses promotional issues that play an important role for sustainable development but are not specific to any of the three megatrends, such as alleviating poverty in developing countries and general corporate finance (cf. chapter 'Business').

A strategically important theme for the group is that the projects it co-finances must respect high environmental and social standards, especially human rights, in order to be sustainable. KfW's Sustainability Guiding Principles are the key frame of reference across all business sectors and subsidiaries. The transparent presentation of the underlying decision-making and assessment processes is also of great importance and involves, among other things, regular exchange with stakeholders.

Equally important is full compliance with legal obligations and the group's internal requirements for the prevention of fraud, corruption and money-laundering. For us as a bank, the green bond purchase programme commissioned by the Federal Ministry for the Environment, Nature Conservation and Nuclear Safety (BMUB), the steering of the liquidity portfolio to sustainability criteria and the issuance of KfW Green Bonds are of particular importance. KfW Group's employee policies are primarily focused on gender equality and balancing work and private life.

### Sustainability approach and key areas of activity

KfW Group		
Declaration of KfW Group on respect for human rights in its business operations		
KfW's Sustainability Guiding Principles		
Lending business (megatrends)	Sustainable banking	Governance and social responsibility
Demographic and social change	In-house environmental protection	Public Corporate Governance Code
Climate change and the environment	Responsible procurement	Comprehensive sustainability management
Globalisation and technological progress	Staff members	Preventing corruption/money laundering
Non-trend-related promotional issues	Sustainable portfolio management	KfW Stiftung



Around 80 measures  
in the Sustainability  
Programme 2018

## Stakeholder dialogue

KfW seeks dialogue with experts and initiators from its stakeholder environment to develop its sustainability strategy further. The bank maintains a constructive and open exchange with them – in individual conversations and discussion forums and at conferences, networking meetings and own events. KfW benefits from the knowledge and experience of its stakeholders, informs them about its actions and is faced with important questions. Stakeholders were also involved in the preparation of this Sustainability Report with a focus on the topic of human rights (see → [online magazine](#)).

KfW Group is a globally active promotional bank established as a public law institution and therefore interacts with a wide range of international stakeholder groups from all areas of society. Stakeholders that are important for KfW come from organisations or the general public who are influenced by the activities of KfW Group or who themselves can influence the group's activities. Key stakeholders include:

- Shareholders, public sector clients and strategic partners in politics and business
- Final costumers and borrowers from the promotional programmes, export and project finance
- Representatives of the media, the research community and non-governmental organisations (NGOs)
- Analysts, investors and issuers
- Suppliers
- Local residents near KfW locations
- Staff members
- The general public

## Association forums and memberships

Forums for dialogue with stakeholders also include the various associations and initiatives in which representatives of KfW Group actively participate or hold honorary positions or mandates. These are, among others:

- German Federal Institute for Geosciences and Natural Resources (BGR)
- CDU Parliamentary Committee on Economic Cooperation and Development Cooperation and Human Rights
- Indo-German Consultative Group (DIGB)
- Fixed Income Advisory Committee (UN-PRI)
- Women's Career Index (FKI)
- Cologne Institute for Economic Research (IW)
- German Near and Middle East Association
- Intergovernmental Committee of Experts on Sustainable Development Financing

KfW Group also supports a number of external initiatives whose orientation, guiding principles and programming it upholds. Further memberships of associations and initiatives dedicated to sustainability include:

- Association of European Development Finance Institutions (EDFI)
- Bundesverband Öffentlicher Banken Deutschlands (VÖB)
- Climate Action in Financial Institutions
- Conservation Finance Alliance (CFA)
- Equator Principles Association (through KfW IPEX-Bank)
- Extractive Industries Transparency Initiative (EITI)
- Green Finance Cluster Frankfurt (GFCF)
- International Development Finance Club (IDFC)
- Principles for Responsible Investment (PRI)
- Reproductive Health Supplies Coalition
- Transparency International Deutschland
- United Nations Environment Programme Finance Initiative (UNEP-FI)

KfW representatives sit on the supervisory boards of various organisations including DEG, KfW IPEX-Bank, Deutsche Energie-Agentur GmbH (dena) and Berliner Energieagentur GmbH (BEA), in which it holds participations.

### Dialogue on human rights

In October 2017, a stakeholder roundtable in Berlin provided the opportunity for selected stakeholder representatives to direct questions, criticisms and recommendations to KfW Group. The persons responsible for sustainability management at KfW extended an invitation to an open exchange on the topic of human rights. The results were subsequently presented to KfW's Executive Board and are being fed into the further development of sustainability management. Among other things, various participants expressed the desire for more transparency in order to be better able to assess in what ways KfW considers human rights. Further information on this discussion event can be found in the online magazine that forms part of the → [Sustainability Report 2017](#).

## Materiality analysis

In 2017 KfW's Central Sustainability Management conducted a materiality analysis with relevant in-house experts and the sustainability consulting firm akzente. A stakeholder expert panel was also involved in the analysis. [ The purpose was to define the material aspects pertaining to the implementation of the CSR Directive Implementation Act (known as CSR-RUG for its German abbreviation) ] ✓ and to identify the relevant themes to be reported against in conformity with the Global Reporting Initiative (GRI) (see also 'Report profile', p. 2).

### Determining the sustainability context

[ The total number of aspects to be analysed was determined on the basis of the themes selected for the materiality analysis previously performed for the Sustainability Report 2015 ] ✓ (→ [KfW Sustainability Report 2015](#), p. 26) [ and the current Sustainability Guiding Principles of KfW Group. These themes were compared with industry-relevant external sustainability standards and frameworks and checked for completeness. All themes that are potentially relevant for KfW were subsequently amalgamated and combined into 17 aspects (see table on p. 14–15). This selection was subdivided into two categories: aspects that affect banking business and aspects that apply to KfW Group's bank operation. ] ✓

### Analysis from three perspectives

[ The next step involved assessing the significance of the selected sustainability aspects for KfW. The assessment had to be performed against the various materiality criteria of the CSR-RUG and the GRI. Aspects that were defined as material in the meaning of the CSR-RUG were those that are relevant for understanding the business development, results and situation of KfW and KfW Group and in which the business activity of KfW and KfW Group also has significant impacts on sustainability aspects (environmental concerns, employee needs, prevention of corruption and bribery, respect for human rights and social concerns). ] ✓ These impacts are also decisive in the materiality definition of the GRI. According to the GRI, the significance of the aspects for the stakeholders is also an important dimension. All three assessment criteria were applied in defining material topics for the report.



Stakeholder roundtable on the topic of human rights held with selected representatives from politics, business and society

## Impacts

[ Significant impacts are defined as both positive and negative effects which KfW and KfW Group have on sustainability outcomes. For KfW as a globally active promotional bank, the assessment of impacts should ensure that global developments and goals are sufficiently taken into account. The Sustainable Development Goals (SDGs) therefore served as an assessment grid. The first step was to conduct an analysis of the 17 sustainability aspects for their impacts on the SDGs to identify where and to what extent KfW contributes to their achievement. Different scopes were applied for sustainability themes of banking business on the one hand and bank operation on the other. Aspects that affect KfW's business were assessed for their global impact on the SDGs. For matters that are of relevance to bank operation, a narrower regional perspective was applied, with the assessment focusing on the impacts of KfW's bank operation at the Frankfurt location as Germany's most important financial hub.

The assessment of the impacts was validated as part of an internal materiality workshop held in September 2017. Representatives of Group Strategy, Risk Management and the Central Sustainability Management were invited to participate. The workshop participants also assessed what potentially adverse impacts could result from KfW's and KfW Group's business activity if KfW or KfW Group were not active in the relevant area. The workshop also addressed the question whether KfW has not just direct but also indirect impacts by potentially acting as a role model.

## Business relevance

Another objective of the materiality workshop was to apply the second materiality criterion in the meaning of the CSR-RUG by analysing the relevance of the aspects for KfW's business. Here it was necessary to take into account KfW's specific role as an institution with an official promotional mandate. Within KfW Group, only KfW IPEX-Bank works to turn a profit. Accordingly, the workshop participants considered an indication for strong business relevance to be given when, for example, goals and/or (sub-)strategies for steering an aspect existed or were in planning which, in turn, contributed to KfW's business strategy. ] ✓

## Stakeholder relevance

Finally, in order to meet the materiality definition of the GRI, the 17 aspects were also assessed for their relevance for the stakeholders of KfW Group. Eleven external experts from the fields of finance, development cooperation and sustainability categorised the themes using a standardised questionnaire from their respective viewpoint as a representative of one or more of KfW's stakeholder groups. Themes that had high or medium relevance for the stakeholders were defined as material within the meaning of the GRI.

## Material aspects

Aspects	Stakeholder relevance	Positive impact	Adverse impact	Business relevance	Materiality for GRI: Assignment to the GRI aspects	Materiality for GRI-RUG: Assignment to the NFS aspects 
<b>Business</b>						
Financing: Climate action and environmental protection	high	high	high	Yes	<b>material</b> (Economic performance, indirect economic impacts, product portfolio, biodiversity)	<b>material</b> (Environmental concerns)
Financing: Poverty alleviation	medium	high	high	Yes	<b>material</b> (Economic performance, indirect economic impacts, product portfolio)	<b>material</b> (Social concerns, respect for human rights)
Financing: SMEs and start-ups in Germany	medium	low	medium	Yes	<b>material</b> (Economic performance, indirect economic impacts, product portfolio)	<b>material</b> (Social concerns)
Financing: Globalisation and technological progress	low	medium	medium	Yes	<b>material</b> (Economic performance, indirect economic impacts, product portfolio)	<b>material</b> (Social concerns)
Financing: Demographic and social change	low	medium	medium	Yes	<b>material</b> (Economic performance, indirect economic impacts, product portfolio)	<b>material</b> (Social concerns)
Responsible financing	high	medium	high	Yes	<b>material</b> (Product portfolio, audit, rights of indigenous peoples, assessment of human rights performance)	<b>material</b> (Respect for human rights, social and environmental concerns)
Sustainable investment and green bond issuance	medium	low	low	No	<b>material</b> (Active ownership approach, product portfolio)	not material
Green bond purchase programme	medium	medium	medium	Yes	<b>material</b> (Active ownership approach, product portfolio)	<b>material</b> (Environmental concerns)

## Material aspects

Aspects	Stakeholder relevance	Positive impact	Adverse impact	Business relevance	Materiality for GRI: Assignment to the GRI aspects	Materiality for GRI-RUG: Assignment to the NFS aspects 
<b>Bank operation</b>						
Transparency and stakeholder communication	medium	low	low	Yes	<b>material</b> (Politics, protection of customers' privacy, marketing and labelling)	not material
Responsible procurement	medium	low	low	Yes	<b>material</b> (Procurement, assessment of suppliers with regard to ecological and social aspects)	not material
In-house environmental protection	medium	negligible	low	Yes	<b>material</b> (Materials, energy, water, emissions, waste and wastewater, environmental compliance)	not material
Compliance	high	low	medium	Yes	<b>material</b> (Fight against corruption, anti-competitive behaviour, socio-economic compliance, environmental compliance)	<b>material</b> (Fight against corruption and bribery)
Responsible and attractive employment	medium	negligible	negligible	Yes	<b>material</b> (Employment, employer-employee relationship, right to freedom of association and collective bargaining agreements)	not material
Diversity and equal opportunity	medium	low	medium	Yes	<b>material</b> (Market presence, diversity and equal opportunity, gender equality)	<b>material</b> (Employee interests)
Training and education	low	negligible	negligible	No	not material	not material
Occupational health and safety	medium	negligible	negligible	No	<b>material</b> (Occupational health and safety)	not material
Social commitment	low	negligible	negligible	No	not material	not material

The table shows that 15 of 17 aspects have been defined as material in the meaning of the GRI. In addition to all business aspects, many aspects of bank operation are important for GRI reporting because the interviewed stakeholders attributed significant relevance to these aspects. Only the aspects 'training and education' and 'social commitment' were regarded as non-material but are nevertheless included in the present report because they are of relevance for specific stakeholders of KfW.

[ For the summarised non-financial statement (NFS) on implementation of the CSR-RUG, however, only some aspects – nine altogether – are material. Aspects that have both significant impacts and significant business relevance are particularly those that are clearly related to KfW's and the KfW Group's core business and address important areas of promotion such as the financing of climate action and environmental protection. It is here that KfW and KfW Group have a particularly strong influence on sustainable development. In the context of KfW Group's banking operations, these criteria apply solely to the aspects 'compliance' and 'diversity and equal opportunities'. Other internal aspects such as 'responsible and attractive employment' or 'in-house environmental protection' have business relevance, although their impacts on the SDGs are not significant given the relatively small workforce and low number of office buildings in comparison with retail banks.

The non-financial statement on the financing aspects ('climate action and environmental protection', 'poverty alleviation', globalisation and technological progress', 'demographic and social change' and 'responsible finance') can be found in condensed form in the 'Business' chapter from p. 30. Information on the aspect 'green bond purchase programme' is reported in the chapter 'KfW in the capital market' from p. 82. We report on 'compliance' aspects in the chapter entitled 'business management' from p. 21 and on 'diversity and equal opportunity' in the chapter 'employees' from p. 52.

#### Risk assessment

As a starting point for the risk assessment to be conducted in the meaning of the CSR-RUG, the materiality workshop performed an analysis of the potential adverse impacts of KfW's and KfW Group's actions. The CSR-RUG requires risks to be reported that are very likely to have serious adverse impacts on non-financial matters if they materialise. Accordingly, the risk analysis examined potentially serious adverse impacts of KfW and KfW Group on non-financial matters (gross risks). In addition, the Central Sustainability Management estimated the likelihood of occurrence of potentially serious adverse impacts in a separate process. No significant non-financial risks with a high probability of occurrence were identified.] ✓



We identified  
15 material aspects

## KfW Sustainability Programme

Under its Sustainability Programme 2018, KfW Group has set itself goals with deadlines that are designed to further improve its sustainability performance. At the same time, by opting to report annually it has reset the Sustainability Programme to cover a one-year observation period. However, the scheduling of certain measures is not pegged to the year 2018, such as those that extend over two or more years. A selection of the key issues and measures is presented below.

The complete programme is available on the KfW Sustainability Portal at → [www.kfw.de/nachhaltigkeit](http://www.kfw.de/nachhaltigkeit).

The measures and objectives of the previous Sustainability Programme 2015–2017 have been largely achieved. Actions not yet completed are continuing. The current status can also be viewed at → [www.kfw.de/nachhaltigkeit](http://www.kfw.de/nachhaltigkeit).

Topic	Measures	Target date
<b>Sustainability strategy</b>		
Enhancing sustainability management	Achieve top sustainability ratings compared to peer group in evaluations of KfW Group by sustainability rating agencies	continuous
	Internal 'Roadmap for Sustainable Finance' project to assess how sustainability themes are incorporated into processes and products	2018
	Update the Sustainability Guiding Principles of KfW Group	2018
	Revise the Sustainability Guidelines for Domestic Business	2018
	Revise the 'In-house Environmental Protection Guidelines' of KfW Group	2018
	Enhance the concept for communication on sustainability	2018
	Continue to operationalise the standard process for preparing the Sustainability Report	2018
	Review the environmental and social standards for banks and insurance companies (DEG)	2018
Fighting corruption and offences	Build expertise in the area of governance and compliance through the timely implementation of a Guidance on Competition Law (KfW IPEX-Bank)	2018
	Conduct training sessions (KfW IPEX-Bank)	continuous
	Review the complaints mechanism in the area of Financial Cooperation (FC) at KfW Development Bank	2018

Topic	Measures	Target date
<b>Business</b> Strengthening and expanding sustainable financings	Improve transparency in recording greenhouse gas reductions achieved by FC projects and programmes, study the feasibility of carbon footprinting (greenhouse gas emissions) at project level and its link to climate impact assessment (KfW Development Bank)	2018
	Develop and introduce a concept for enhancing the transparency on environmental, social and climate impacts of projects and programmes of Financial Cooperation (KfW Development Bank)	2018–2019
	Better harmonise reporting on climate commitments, mitigation impacts and private investments mobilised with other international financial intermediaries (KfW Development Bank)	2018
	Continue high financing volumes in the areas of environmental protection, innovation, corporate finance and start-ups (Mittelstandsbank)	2018
	Expand the circle of eligible applicants for start-up finance known as ‘Gründerkredit Startgeld’ to better address the topic of social entrepreneurship (Mittelstandsbank)	2018
	Support the Federal Ministry for Economic Affairs and Energy in implementing the promotional strategy for energy efficiency and heat from renewable energy (Mittelstandsbank) (SME finance), (KfW Kommunal- und Privatkundenbank/Kreditinstitute) (municipal and private loans/credit institutions)	2018–2019
Further developing environmental and social impact assessment procedures and standards for projects and programmes co-financed by KfW	Revise the standard tender documents in order to take better account of environmental and social impact aspects in FC-financed projects and programmes (KfW Development Bank)	2018
Supporting a sustainable investment approach	Issue green bonds and possibly further ESG-targeted bonds	2018
	Increase the treasury portfolio and issue new assets within the Asset Management framework exclusively with sustainable investments	2018
	Develop a green bond portfolio (target volume EUR 2 billion over 3–5 years) and participate in capital market initiatives for further development of the green bond market	2018

Topic	Measures	Target date
<b>In-house environmental protection</b>		
Reduction of operational consumption	Conversion of heating and cooling systems at the Frankfurt location	2016–2019
	Introduce bike sharing system 'Call a bike' across Germany for the daily commute and for use on business trips	2018
	Reduce the solar heat gain at the Bonn location with the aim of reducing the cooling load	2016–2019
	Introduce an expanded energy management system at the Bonn location	2018
Enhancing sustainable procurement	Survey main suppliers, i.a. on sustainability criteria	continuous
	Revise the group guidelines on responsible procurement at KfW Group, taking into account corporate policy directives and EU public procurement law	continuous
	Implement KfW's internal sustainability directives into the procurement processes	continuous
<b>Employees</b>		
	Strategy and measures for complying with the German Temporary Agency Work Act	2017–2018
	Measures under the follow-on employee survey project	2018
	New pension scheme	2018
	Expand corporate health management services	2018–2020
Optimisation of gender and diversity policies	Implement the Act to Promote the Transparency of Pay Structures	2018
	Project and measures for establishing inclusion, including the recruitment of employees with severe disabilities, their integration into the organisation and managing inclusion as part of corporate culture; increase the share of employees with severe disabilities (KfW IPEX-Bank)	2019
	Increase the percentage of women in management positions to 35% of team leaders, 26% of heads of department and 17% of directors	2019
	Develop a strategy for promoting cross-generational knowledge transfer and interacting with older employees	2018–2019
Optimisation of work-life balance	Project on flexible work with a focus on managing existing working arrangements and measures for creating a balance between business imperatives and employees' needs	2018
	Increasingly promote opportunities to work from home	2018
	Work and family audit (KfW IPEX-Bank)	2018–2020
	Work and family re-audit (DEG)	2018

Topic	Measures	Target date
Assuring the quality of continuing education and management development	Continuously evaluate training measures through regular surveys of participants and feedback meetings with trainers	continuous
	Enhance change management	2018
	Redesign and implement potential identification procedures for directors and heads of department	2018
	'Year of Feedback' project to strengthen the active feedback culture with a particular focus on development aspects	2018
	Enhance KfW's succession management and high-potential programme	2018
	Establish and expand the digital academy	2018
	Develop experiences and methodological competence in agile working methods (scrum, design thinking)	2018