PRI Principles for Responsible Investment

RI TRANSPARENCY REPORT

2013/14

KfW Bankengruppe

UNEP Finance Initiative Changing finance, financing change | United Nations Global Compact

An investor initiative in partnership with UNEP Finance Initiative and UN Global Compact

About this report

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

This report is an export of the individual Signatory organisation's response to the PRI during the 2013-14 reporting cycle. It includes their responses to mandatory indicators, as well as responses to voluntary indicators the signatory has agreed to make public. The information is presented exactly as it was reported. Where an indicator offers a response option that is multiple-choice, all options that were available to the signatory to select are presented in this report. Presenting the information exactly as reported is a result of signatory feedback which suggested the PRI not summarise the information. As a result, the reports can be extensive. However, to help easily locate information, there is a **Principles index** which highlights where the information can be found and summarises the indicators that signatories complete and disclose.

Understanding the Principles Index

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

Indicators can refer to one or more Principles. Some indicators are not specific to any Principle. These are highlighted in the 'General' column. When multiple Principles are covered across numerous indicators, in order to avoid repetition, only the main Principle covered is highlighted. This results in some Principles not being explicitly highlighted. For instance, Principle 1 and 2 cannot be implemented without implementing Principle 3, but there are cases when Principle 3 is not explicitly highlighted.

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

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

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

PRI disclaimer

This document is based on information reported by signatories and responses have not been independently audited by the PRI Secretariat, PRI working groups, or any other third party. While this information is believed to be reliable, no representations or warranties are made as to its accuracy and no responsibility or liability can be accepted for any error or omission.

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Principles Index

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

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

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

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PRI Principles for Responsible Investment

KfW Bankengruppe

Reported Information

Public version

Organisational Overview

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PRI Principles for Responsible Investment

Basic Information

OO 01	Mandatory	Gateway/Peering	General

OO 01.1 Select the category which best represents your primary activity.

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

OO 02	Mandatory	Peering	General

OO 02.1 Select the location of your organisation's headquarters.

Germany

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

- ◉ 1
- ○ 2-5
- ○ 6-10
- ○ >10

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

	FTE

70

OO 02.4 Additional information. [Optional]

The information given above refers to KfW's treasury department that is responsible for the management of KfW's liquidity portfolio. Overall, KfW has offices in more than 70 locations worldwide. As at the end of 2012, KfW employed more than 5400 people.

OO 03	Mandatory	Descriptive	General

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PRI Principles for Responsible Investment

OO 03.1 Indicate whether you have subsidiaries within your organisation that are also PRI signatories in their own right.

○ Yes

◉ No

OO 04 | Mandatory | Gateway/Peering | General

OO 04.1 Indicate the year end date for your reporting year.

31/12/2013

OO 04.2 Indicate your total AUM at the end of your reporting year.

	trillions	billions	millions	thousands	hundreds
Total AUM		21	787	000	000
Currency	EUR				
Assets in USD		28	697	707	620

OO 04.3 Indicate the level of detail you would like to provide about your asset class mix.

◉ Approximate percentage breakdown to the nearest 5% (e.g. 45%)

○ Broad ranges breakdown (i.e. <10%; 10-50%; >50%)

OO 06 | Mandatory | Descriptive | General

OO 06.1 To contextualise your responses to the public, indicate how you would like to disclose your asset class mix.

◉ Publish our asset class mix as percentage breakdown

	Internally managed (%)	Externally managed (%)
Listed equity	0	0
Fixed income – corporate	45	0
Fixed income – government	31	0
Fixed income – other	24	0
Private debt	0	0
Private equity	0	0
Property	0	0

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

○ Publish our asset class mix as broad ranges

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

OO 06.2 Additional information. [Optional]

The asset class "Fixed income - other" sums up bonds issued by supranationals/agencies (23%) and ABS (1%).

OO 08 | **Mandatory to Report Voluntary to Disclose** | **Peering** | **General**

OO 08.1 Indicate the breakdown of your organisation's AUM by market.

Market breakdown	% of AUM
Developed Markets	○ 0% ○ <10% ○ 10-50% ◉ >50 %
Emerging, Frontier and Other Markets	◉ 0% ○ <10% ○ 10-50% ○ >50 %

OO 09 | **Voluntary** | **Descriptive** | **General**

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OO 09.1	Provide any additional information about your organisation, its mission, strategies, activities or investments which are important to contextualise your responsible investment activities.

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

Gateway asset class implementation indicators

OO 11	Mandatory	Gateway	General

OO 11.1	Indicate if in the reporting year you incorporated ESG issues into your investment decisions and/or your active ownership practices in the following internally managed asset classes.

☑ Fixed income – corporate

☑ Fixed income – government

☑ Fixed Income – other

☐ None of the above

OO 12	Mandatory	Gateway	General

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

Core modules

☑ Organisational Overview

☑ Overarching Approach (including assets which do not have a separate module)

RI implementation directly or via service providers

	Direct - Fixed Income

☑ Fixed Income - Corporate

☑ Fixed Income - Government

Closing module

☑ Closing module

Note: Please make sure your response to this indicator is complete and confirmed before you progress. Your response will determine which tailored modules and sections you will be presented with.

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PRI Principles for Responsible Investment

KfW Bankengruppe

Reported Information

Public version

Overarching Approach

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PRI Principles for Responsible Investment

Responsible investment policy

OA 01	Mandatory	Gateway/Core Assessed	General

OA 01.1 Indicate if you have a responsible investment policy.

- (•) Yes
- ( ) No

OA 01.2 Indicate if you have other guidance documents or more specific policies related to responsible investment.

- (•) Yes
- ( ) No

OA 01.3 Provide a brief description of the key elements of your responsible investment policy or, if you do not have a policy, of your overall approach to responsible investment. [Optional]

KfW is an asset owner signatory to the PRI, committed not only to promoting sustainability through its original lending business but also to taking responsibility as an institutional investor in the capital market. On that background KfW developed and implemented a sustainable investment approach for its own liquidity portfolio. KfW's liquidity portfolio is an essential component in the liquidity maintenance strategy. The portfolio is made up solely of bonds issued by governments and supranational organisations, bank bonds, Pfandbriefe and ABS. The bonds are selected on the basis of diversification criteria, issuer credit ratings and sustainability ratings. In 2008, KfW incorporated environmental, social and governance criteria (ESG) into the existing investment process in order to take sustainability ratings into account. KfW uses an internal limit process to assess issuer creditworthiness and sets individual investment volume limits. The issuer's sustainability rating is determined by a sustainability rating agency. Sustainability is then assessed in relation to all issuers in the liquidity portfolio using three issuer categories (good, average, relatively poor). The categories determine whether the investment volume limit for a given issuer is maintained or reduced. Thus, securities from particularly sustainable issuers are overweighed within the portfolio. The sustainability ratings are updated each month. In parallel with the ESG criteria, KfW introduced exclusion criteria in its liquidity portfolio for non-governmental issuers in early 2011. These criteria are based on the IFC Exclusion List. The aim is to ensure that KfW's bond investments do not trigger negative environmental, social and corporate governance impacts. As KfW's investment approach considers issuer sustainability in relation to their peers, we feel that it is appropriate to inform issuers about their current sustainability rating and any potential exclusion criteria. We also encourage issuers to maintain and enhance their sustainability commitments and provide issuers with detailed information about the sustainable investment process and highlight strengths and weaknesses in each issuer's sustainability rating.

OA 02	Mandatory	Core Assessed	PRI 6

OA 02.1 Indicate if your responsible investment policy is publicly available.

- (•) Yes

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OA 02.2	Provide a URL to your responsible investment policy.

	URL

https://www.kfw.de/nachhaltigkeit/KfW-Group/Sustainability/Nachhaltiges-Investment/

○ No

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

◉ Yes

◉ Yes, all

○ Yes, some

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

Policy or document name	URL
KfW sustainability guidelines	https://www.kfw.de/Download-Center/Konzernthemen/Nachhaltigkeit/englisch/Umwelt-u-Sozialleitsaetze_E.pdf
KfW sustainability report	https://www.kfw.de/nachhaltigkeit/KfW-Group/Sustainability/Reporting/Sustainability-Report/

○ No

OA 03	Mandatory	Core Assessed	PRI 1,2

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

Select all that apply

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Policy components/types	Coverage by AUM
☑ Policy setting out your overall approach ☑ Engagement/active ownership policy ☐ Specific guidelines on corporate governance ☐ Specific guidelines on environmental issues ☐ Specific guidelines on social issues ☐ Asset class-specific guidelines ☑ Screening/exclusion policy ☐ Other, specify ☐ Other, specify	◉ Applicable policies cover all AUM ○ Applicable policies cover a majority of AUM ○ Applicable policies cover a minority of AUM

OA 03.2 Comment on any variations or exceptions in the coverage of your responsible investment policy. [Optional]

ABS investments: sustainability ratings for ABS investments are based on the ABS originator as sustainability ratings for ABS issuers are not available.

OA 04 | Mandatory | Core Assessed | General

OA 04.1 Indicate if your organisation has a policy on managing potential conflicts of interest in the investment process.

◉ Yes

OA 04.2 Describe your policy on managing potential conflicts of interest in the investment process. [Optional]

KfW's liquidity portfolio is part of its bank wide treasury operations. Any conflicts of interest that might arise are addressed by KfW's overall compliance management. https://www.kfw.de/KfW-Group/About-KfW/Verantwortung-und-Corporate-Governance/Integrität-Compliance/

○ No

Objectives and strategies

OA 05 | Mandatory | Gateway/Core Assessed | General

OA 05.1 Indicate if your organisation sets objectives for its responsible investment activities.

◉ Yes

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OA 05.2	Indicate how frequently your organisation sets or revises objectives for responsible investment.

◉ At least once per year

○ Less than once per year

OA 05.3	Indicate how frequently your organisation formally reviews performance against its objectives for responsible investment.

○ Quarterly

◉ Biannually

○ Annually

○ Every two years or less

○ It is not reviewed

○ No

OA 05.4	Additional information. [Optional]

KfW has a bank wide Sustainability Programme 2012-2014 that encompasses all the targets linked to our sustainability commitments. The programme was drawn up by KfW's sustainability officers and the group-level environment and climate steering committee. One target area is the implementation of a sustainable investment approach. Moreover, the impacts of the sustainable investment approach on the liquidity portfolio are measured and discussed in the context of the regular internal monitoring and reporting processes in KfW's treasury department.

OA 06	Voluntary	Descriptive	General

OA 06.1	List your three main responsible investment objectives you had set for the reporting year. For each, indicate any key performance indicators you set to measure your progress and also indicate your progress towards achieving your objectives.

☑ Add responsible investment objective 1

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

☑ Add responsible investment objective 2

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

☑ Add responsible investment objective 3

Objective 3	Engagement with the bond issuers of KfW's liquidity portfolio
Key performance indicators	internal documentation
Describe the progress achieved	target achieved, active dialogue with issuers

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

☑ Add responsible investment objective 1 for the next reporting year

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

☑ Add responsible investment objective 2 for the next reporting year

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

☑ Add responsible investment objective 3 for the next reporting year

Objective 3 for the next reporting year	Engagement with bond issuers and ABS originators of the liquidity portfolio
Key performance indicators	internal documentation

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PRI Principles for Responsible Investment

OA 06.3	Additional information.

Since mid 2013, KfW's liquidity portfolio als invests in ABS transactions. These investments are made according to the sustainable investment process. Therefore, ABS originators will be contacted in the course of the annual engagement processes for the first time.

Governance and human resources

OA 07	Voluntary	Descriptive	General

OA 07.1	Provide a brief description of your organisation's governance, management structures and processes related to responsible investment.

As a promotional bank owned by the German Federal Government and the Federal states it is KfW's mission to support the sustainable improvement of economic, social and ecological living conditions in a national and international context. In the challenging times of climate change, globalisation and demographic development, KfW bears a particular share of responsibility as a promotional bank and sets positive impulses towards those trends via its core loan business.

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

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

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

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

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PRI Principles for Responsible Investment

OA 08	Mandatory	Gateway/Core Assessed	General

OA 08.1

Indicate the roles present in your organisation and for each, indicate whether they have oversight and/or implementation responsibilities for responsible investment.

	Roles present in your organisation

- ☑ Board members or trustees
  - ☑ Oversight/accountability for responsible investment
  - ☐ Implementation of responsible investment
  - ☐ No oversight/accountability or implementation responsibility for responsible investment
- ☑ Chief Executive Officer (CEO), Chief Investment Officer (CIO), Investment Committee
  - ☑ Oversight/accountability for responsible investment
  - ☐ Implementation of responsible investment
  - ☐ No oversight/accountability or implementation responsibility for responsible investment
- ☑ Other Chief-level staff or head of department, specify

  senior management
  - ☑ Oversight/accountability for responsible investment
  - ☐ Implementation of responsible investment
  - ☐ No oversight/accountability or implementation responsibility for responsible investment
- ☑ Portfolio managers
  - ☐ Oversight/accountability for responsible investment
  - ☑ Implementation of responsible investment
  - ☐ No oversight/accountability or implementation responsibility for responsible investment
- ☐ Investment analysts
- ☑ Dedicated responsible investment staff
  - ☐ Oversight/accountability for responsible investment
  - ☑ Implementation of responsible investment
  - ☐ No oversight/accountability or implementation responsibility for responsible investment
- ☑ External managers or service providers
  - ☐ Oversight/accountability for responsible investment
  - ☑ Implementation of responsible investment
  - ☐ No oversight/accountability or implementation responsibility for responsible investment
- ☐ Other role, specify
- ☐ Other role, specify

OA 08.2

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

	Number

5

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PRI Principles for Responsible Investment

OA 09	Voluntary	Additional Assessed	General

OA 09.1	Indicate if your organisation's performance management, reward and/or personal development processes have a responsible investment element.

Board members/Board of trustees

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

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

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

Other C-level staff or head of department

senior management

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

Portfolio managers

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

Dedicated responsible investment staff

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

Promoting responsible investment

OA 10	Mandatory	Core Assessed	PRI 4,5

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OA 10.1	Indicate if your organisation is a member of and/or participant in any collaborative organisation or initiatives that promote responsible investment.

◉ Yes

OA 10.2	Select the collaborative organisation and/or initiatives of which your organisation is a member or in which it participated during the reporting year, and the role you played.

Select all that apply

☐ Asian Corporate Governance Association

☐ Association for Sustainable & Responsible Investment in Asia

☐ Australian Council of Superannuation Investors

☑ CDP Climate Change

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

☑ Basic

☐ Moderate

☐ Advanced

☐ CDP Forests

☐ CDP Water

☐ CFA Institute Centre for Financial Market Integrity

☐ Council of Institutional Investors (CII)

☐ Eumedion

☑ Extractive Industries Transparency Initiative (EITI)

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

☐ Basic

☑ Moderate

☐ Advanced

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

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

☐ Global Investors Governance Network (GIGN)

☐ Global Real Estate Sustainability Benchmark (GRESB)

☐ Institutional Investors Group on Climate Change (IIGCC)

☐ Interfaith Center on Corporate Responsibility (ICCR)

☐ International Corporate Governance Network (ICGN)

☐ Investor Group on Climate Change, Australia/New Zealand (IGCC)

☐ Investor Network on Climate Risk (INCR)/CERES

☐ Local Authority Pension Fund Forum

☑ Principles for Responsible Investment

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

☐ Basic

☐ Moderate

☑ Advanced

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

chair in corporate fixed income working group

☐ Regional or National Social Investment Forums (e.g. UKSIF, Eurosif, ASRIA, RIAA), specify

☐ Shareholder Association for Research and Education (Share)

☑ United Nations Environmental Program Finance Initiative (UNEP FI)

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

☐ Basic

☑ Moderate

☐ Advanced

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

https://www.kfw.de/nachhaltigkeit/KfW-Group/Sustainability/Reporting/Sustainability-Report/ Book 2, p. 8

☐ United Nations Global Compact

☑ Other collaborative organisation/initiative, specify

Equator Principles Association

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

☐ Basic

☑ Moderate

☐ Advanced

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

https://www.kfw-ipex-bank.de/International-financing/KfW-IPEX-Bank/About-KfW-IPEX-Bank/Gesellschaftliche-Verantwortung/Äquator-Prinzipien/Equator-Principles-Implementation-Reporting-2011/index.html

☑ Other collaborative organisation/initiative, specify

Development Finance Club (IDFC)

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

☐ Basic

☐ Moderate

☑ Advanced

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

https://www.kfw.de/KfW-Group/Newsroom/Aktuelles/News/News-Details_9046.html

☑ Other collaborative organisation/initiative, specify

European Development Finance Institutions (EDFI)

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

☐ Basic

☐ Moderate

☑ Advanced

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

https://www.deginvest.de/Press/News/News-Details_130752.html

☐ Other collaborative organisation/initiative, specify

○ No

OA 11	Mandatory	Core Assessed	PRI 4

OA 11.1 Indicate if your organisation promotes responsible investment, independently of collaborative initiatives.

◉ Yes

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

☐ Provided or supported education or training programmes for clients, investment managers, broker/dealers, investment consultants, legal advisers or other investment organisations

☑ Provided financial support for academic or industry research on responsible investment

☑ Encouraged better transparency and disclosure of responsible investment practices across the investment industry

☑ Spoke publicly at events and conferences to promote responsible investment

☑ Wrote and published in-house research papers on responsible investment

☑ Encouraged the adoption of the PRI

☑ Other, specify

Sponsoring of E-RISC project of UNEP FI.

○ No

OA 12	Voluntary	Additional Assessed	PRI 4,5,6

OA 12.1 Indicate if your organisation - individually or in collaboration with others - conducted dialogue with public policy makers or standard-setters in support of responsible investment in the reporting year.

◉ Yes

☐ Yes, individually

☑ Yes, in collaboration with others

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OA 12.2	Select the methods you have used.

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

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

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

☐ Other, specify

OA 12.3	Where you have made written submissions (individually or collaboratively) to governments and regulatory authorities, indicate if these are publicly available.

◉ Yes, publicly available

	provide URL

http://www.bmub.bund.de/fileadmin/Daten_BMU/Pools/Broschueren/broschuere_PRI_Leitfaden.pdf

○ No

○ No

ESG issues in asset allocation

OA 13	Voluntary	Descriptive	PRI 1

OA 13.1	Indicate if your organisation considers ESG issues in strategic asset allocation and/or allocation of assets between geographic markets.

○ Yes

◉ No

OA 13.3	Additional information.

KfW has only one portfolio - the liquidity portfolio which is purely fixed income. Therefore, asset allocation methods are not applicable.

OA 14	Voluntary	Descriptive	PRI 1

OA 14.1	Indicate if your organisation allocates assets to, or manages, funds based on specific environmental and social themed areas.

○ Yes

◉ No

Asset class implementation not reported in other modules

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OA 15	Voluntary	Descriptive	General

OA 15.1	Describe how you address ESG issues for internally managed assets for which a specific PRI asset class module has yet to be developed or for which you are not required to report because your assets are below the minimum threshold.

Asset Class	Describe what processes are in place and the outputs or outcomes achieved
Fixed income - other	the asset class consists of bonds issued by supranational issuers and ABS. KfW applies its sustainable investment approach as described for Fixed income - corporate and government.

Innovation

OA 18	Voluntary	Descriptive	General

OA 18.1	Describe any specific features of your approach to responsible investment that you believe are particularly innovative.

KfW is a pure fixed income investor. Internal guidelines restrict the investment universe to sovereign bonds, bonds issued by supranational or semi-governmental institutions, financials, covered bonds and ABS. These restrictions are a challenge for sustainable portfolio management. The two methods mainly used to introduce sustainability into portfolio management - the "best in class"-approach and exclusion criteria - are not easy to be implemented by KfW. Using a pure "best in class"-approach would restrict the investment universe to a great extent without taking into account the sheer size of KfW's liquidity portfolio that amounts to around € 22 bn. On this background, the construction of an adequately diversified portfolio is difficult to achieve.

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

Put differently, a key feature of KfW's approach regarding ESG integration is its competitive element. Bond issuers with good sustainability ratings only maintain their limits if they defend their position in the long run. Improvements in the sustainability rating of an individual issuer lead to a better rating compared to all other issuers in the portfolio. On the other hand, a change in the rating of any one issuer automatically influences the position of the others and an issuer may also be downgraded to a lower-rated group. To provide transparency regarding its investment approach and its competitive element KfW regularly engages with the issuers in order to inform them about their current sustainability rating and the existence of exclusion criteria and to encourage them to maintain or strengthen their commitment to sustainability.

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

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Assurance of responses

OA 19	Voluntary	Additional Assessed	General

OA 19.1

Indicate whether your reported information has been reviewed, validated and/or assured by internal and/or external parties.

◉ Yes

OA 19.2

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

☐ Reviewed by Board, CEO, CIO or Investment Committee

☑ Validated by internal audit or compliance function

☑ Assured by an external independent provider, specify name

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

OA 19.3

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

The reported information disclosed in the PRI Reporting Framework 2013/14 has been reviewed internally by KfW's treasury department.

○ No

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PRI Principles for Responsible Investment

KfW Bankengruppe

Reported Information

Public version

Direct - Fixed Income

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PRI Principles for Responsible Investment

Overview

FI 01	Mandatory to Report Voluntary to Disclose	Gateway/Peering	PRI 1

FI 01.1 Provide a breakdown of your internally managed fixed income investments by passive, quantitative, fundamental and other active strategies. For strategies that account for less than 10% of your fixed income investments, indicate if you would still like to report your activities.

Fixed income – corporate

Strategies

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

Percentage of internally managed fixed income - corporate

- ○ <10%
- ○ 10-50%
- ◉ >50%

Fixed income – government

Strategies

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

Percentage of internally managed fixed income - government

- ○ <10%
- ○ 10-50%
- ◉ >50%

FI 02	Mandatory to Report Voluntary to Disclose	Peering	General

FI 02.1 Provide a breakdown of your internally managed fixed income investments by credit quality.

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Credit quality	Fixed Income - Corporate	Fixed Income - Government
Investment grade	○ 0% ○ <10% ○ 10-50% ◉ >50%	○ 0% ○ <10% ○ 10-50% ◉ >50%
High yield	○ 0% ◉ <10% ○ 10-50% ○ >50%	◉ 0% ○ <10% ○ 10-50% ○ >50%
Distressed	◉ 0% ○ <10% ○ 10-50% ○ >50%	◉ 0% ○ <10% ○ 10-50% ○ >50%

FI 02.2 Provide a breakdown of your fixed income investments between primary and secondary market.

Market	Fixed Income - Corporate	Fixed Income - Government
Primary market (new issues)	○ 0% ○ <10% ◉ 10-50% ○ >50%	○ 0% ○ <10% ◉ 10-50% ○ >50%
Secondary market	○ 0% ○ <10% ○ 10-50% ◉ >50%	○ 0% ○ <10% ○ 10-50% ◉ >50%

ESG incorporation in actively managed fixed income

FI 03	Voluntary	Descriptive	PRI 1

FI 03.1 Provide a brief overview of how you incorporate ESG issues in fixed income investments.

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PRI Principles for Responsible Investment

The sustainable investment approach for KfW's liquidity portfolio comprises three elements:

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

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

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

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

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

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

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

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

Indirect application of exclusion criteria to:

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

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

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

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

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PRI Principles for Responsible Investment

assets.

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

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

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

Fixed Income - Government

please refer to explanations above for fixed income - corporate

Fixed Income - Corporate

Implementation processes

FI 04	Mandatory	Gateway/Core Assessed	PRI 1

FI 04.1

Indicate (1) which ESG incorporation strategy and/or combination of strategies you apply to your actively managed corporate fixed income investments; and, (2) the breakdown of your actively managed corporate fixed income investments by incorporation strategy or combination of strategies.

ESG incorporation strategy (select all that apply)

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

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Percentage of active corporate fixed income to which the strategy is applied (estimate +/- 10%)	% 100

☐ Thematic + integration strategies

☐ Screening + thematic strategies

☐ All three strategies combined

☐ No incorporation strategies applied

Total actively managed fixed income - corporate

100%

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

please refer to question OA 18.1

FI 05 | **Voluntary** | **Additional Assessed** | **PRI 1**

FI 05.1 Indicate what ESG information you use in your ESG incorporation strategies and who provides this information.

Type of ESG information

☐ Raw ESG company data

☑ Issuer-related analysis or ratings

Describe who provides this information.

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

☑ Sector-related analysis or ratings

Describe who provides this information.

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

☑ Country-related analysis or ratings

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Describe who provides this information.

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

☑ Screened bond list

Describe who provides this information.

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

☐ Issue-specific analysis or ratings

☐ Other, specify

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

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

(A) Implementation: Screening

FI 06 | **Mandatory** | **Descriptive** | **PRI 1**

FI 06.1 Indicate and describe the type of screening you apply to your internally managed active corporate fixed income investments.

Type of screening

☑ Negative/exclusionary screening

Screened by

☑ Product

☑ Activity

☑ Sector

☐ Country/geographic region

☑ Environmental and social practices and performance

☐ Corporate governance

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Description

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

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

☐ Positive/best-in-class screening

☐ Norms-based screening

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FI 06.2	Describe how the screening criteria are established, how often the criteria are reviewed and how you notify clients and/or beneficiaries when changes are made.

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

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

Indirect application of exclusion criteria to:

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

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

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

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

KfW started to screen the liquidity portfolio on the set of exclusion criteria mentioned above in 2011. It is planned to review the set of exclusion criteria on a regular basis. The first review is scheduled for 2014.

FI 07	Mandatory	Core Assessed	PRI 1

FI 07.1	Indicate which processes your organisation uses to ensure that screening in corporate fixed income is based on robust analysis.

☑ Comprehensive research is undertaken or sourced to determine issuers' ESG performance

☑ Issuers are given the opportunity by you or your research provider to review ESG research on them and correct inaccuracies

☑ External research and data used to identify issuers to be excluded/included is subject to internal audit by ESG/RI staff, the internal audit function or similar

☑ Information on ESG issues and/or ratings is updated regularly to ensure that portfolio holdings comply with fund policies

☐ A committee or body with representatives independent of the individuals who conduct ESG research reviews some or all screening decisions

☑ A periodic review of the quality of the research undertaken or provided is carried out

☐ Other, specify

☐ None of the above

FI 08	Voluntary	Additional Assessed	PRI 1

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FI 08.1	Indicate which processes your organisation uses to ensure that fund criteria are not breached in corporate fixed income investments.

☑ Checks are performed to ensure that issuers meet the funds' screening criteria. These checks are:

- ◉ Systematic
- ○ Occasional

☑ Automated IT systems prevent investment managers from investing in excluded bonds or those that do not meet positive screening criteria

☐ Audits of fund holdings are undertaken regularly by internal audit function

☐ Other, specify

☐ None of the above

FI 08.2	If breaches of fund screening criteria are identified, describe the process followed to correct those breaches.

The liquidity portfolio is screened on the set of exclusion criteria on a monthly basis. Once a breach has been identified, further investments in bonds of this specific issuer are blocked immediately.

(C) Implementation: Integration of ESG factors

FI 10	Voluntary	Descriptive	PRI 1

FI 10.1	Describe how you integrate ESG issues into investment decision-making processes.

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

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

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

For details concerning ESG integration please refer to question FI 03.1

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FI 11	Mandatory	Core Assessed	PRI 1

FI 11.1 Indicate if E, S and G issues are reviewed while researching companies and/or sectors in active strategies.

ESG issues	Coverage/extent of review on these issues
Environmental	◉ We systematically review the potential significance of environmental issues and investigate them accordingly ○ We occasionally review the potential significance of environmental issues and investigate them accordingly ○ We do not review environmental issues
Social	◉ We systematically review the potential significance of social issues and investigate them accordingly ○ We occasionally review the potential significance of social issues and investigate them accordingly ○ We do not review social issues
Corporate Governance	◉ We systematically review the potential significance of corporate governance issues and investigate them accordingly ○ We occasionally review the potential significance of corporate governance issues and investigate them accordingly ○ We do not review corporate governance issues

FI 12	Voluntary	Descriptive	PRI 1

FI 12.1 Indicate which processes your organisation uses to ensure that ESG integration is based on a robust analysis.

☑ Comprehensive ESG research is undertaken or sourced to determine companies' activities and products

☑ Companies are given the opportunity by you or your research provider to review ESG research on them and correct inaccuracies

☑ Company information and/or ratings on ESG are updated regularly

☑ A periodic review of the quality of the research undertaken or provided is carried out

☐ Other, specify

☐ None of the above

FI 12.2 Describe how ESG information is held and used by your portfolio managers.

☑ ESG information is held within centralised databases or tools and it is accessible by all relevant staff

☑ ESG information or analysis is a standard section or aspect of all company research notes or industry/sector analysis generated by investment staff

☑ Systematic records are kept that capture how ESG information and research was incorporated into investment decisions

☐ Other, specify

Fixed income - Government

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FI 13	Mandatory	Core Assessed	PRI 1

FI 13.1 Indicate if you incorporate ESG issues in investment analysis and decision making for your government fixed income investments.

◉ Yes

FI 13.2 Indicate for what percentage of your government fixed income investments you incorporate ESG issues in investment analysis and decision making.

○ <10%

○ 10-50%

○ 51-90%

◉ >90%

FI 13.3 Indicate if in active strategies, E, S and G issues are reviewed while researching government issuers.

ESG issues	Coverage/extent of review on these issues
Environmental	◉ We systematically review the potential significance of environmental issues and investigate them accordingly ○ We occasionally review the potential significance of environmental issues and investigate them accordingly ○ We do not review environmental issues
Social	◉ We systematically review the potential significance of social issues and investigate them accordingly ○ We occasionally review the potential significance of social issues and investigate them accordingly ○ We do not review social issues
Corporate Governance	◉ We systematically review the potential significance of corporate governance issues and investigate them accordingly ○ We occasionally review the potential significance of corporate governance issues and investigate them accordingly ○ We do not review corporate governance issues

FI 13.4 Describe your approach to incorporating ESG issues in government fixed income investments. [Optional]

see question FI 03.1

○ No

Outputs and outcomes

FI 15	Voluntary	Descriptive	PRI 1

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FI 15.1	Indicate how your ESG incorporation strategies have influenced the composition of your fixed income portfolio(s) or investment universe.

Fixed Income - Corporate

☑ Narrow down or prioritise the investment universe

☑ Buy / sell / weight decisions

☐ Other, specify

Fixed Income - Government

☐ Narrow down or prioritise the investment universe

☑ Buy / sell / weight decisions

☐ Other, specify

FI 16	Voluntary	Descriptive	PRI 1

FI 16.1	Indicate if you believe (by applicable strategy) that incorporating ESG factors has: (a) Impacted funds' financial performance; (b) Reduced funds' risk or volatility; (c) Improved funds' ESG performance.

Fixed Income - Corporate

a) Impacted funds' financial performance

Screening		Integration of ESG issues	
◉ Yes ○ No		◉ Yes ○ No	

b) Reduced funds' risk or volatility

Screening		Integration of ESG issues	
◉ Yes ○ No		◉ Yes ○ No	

c) Improved funds' ESG performance

Screening		Integration of ESG issues	
◉ Yes ○ No		◉ Yes ○ No	

Fixed Income - Government

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	a) Impacted funds' financial performance

ESG incorporation (for actively managed funds)	
◉ Yes ○ No	

	b) Reduced funds' risk or volatility

ESG incorporation (for actively managed funds)	
◉ Yes ○ No	

	c) Improved funds' ESG performance

ESG incorporation (for actively managed funds)	
◉ Yes ○ No	

FI 16.2	Describe how you are able to determine these outcomes and your actual performance.

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

- ratings are relative - upgrades or downgrades can happen even if an individual issuer's sustainability rating has not changed
- the liquidity portfolio experiences an average of approx. 10 monthly rating changes
- limits can be exceeded: if limits are exceeded there exists no forced selling language but further investments in bonds of that issuer are blocked immediately
- overall portfolio effect: total limit volume is reduced by approx. 8% that equals an available limit volume of more than € 3 bn
- portfolio distribution depending on sustainability ratings is reviewed regularly. The portfolio is strongly overweight in bonds of issuers with a "good" or "average" sustainability rating.

FI 17	Voluntary	Descriptive	PRI 1

FI 17.1	Provide examples of ESG issues that affected your fixed income investment view and/or performance during the reporting year.

☑ ESG issue 1

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PRI Principles for Responsible Investment

Fixed Income - Corporate and/or Government

☑ Corporate

☐ Government

ESG issue and explanation

exclusion criteria applied. A bank was excluded from the investment universe due to its equity participation in a gambling company.

ESG incorporation strategy applied

☑ Screening

☐ Thematic

☐ Integration

☐ Combination of ESG incorporation strategies

Impact on investment view or performance

new investment in bonds of this bank was blocked. Currently there is no exposure to this issuer in the liquidity portfolio.

☑ ESG issue 2

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Fixed Income - Corporate and/or Government

☑ Corporate

☐ Government

ESG issue and explanation

Sustainability rating upgrade

ESG incorporation strategy applied

☐ Screening

☐ Thematic

☑ Integration

☐ Combination of ESG incorporation strategies

Impact on investment view or performance

Due to the good sustainability performance of a Scandinavian bank, its sustainability rating improved from "relatively poor" to "average". On that background the limit reduction of 30% was lowered to a limit reduction of 10%.

☑ ESG issue 3

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PRI Principles for Responsible Investment

Fixed Income - Corporate and/or Government

☐ Corporate

☑ Government

ESG issue and explanation

sustainability rating downgrade

ESG incorporation strategy applied

☐ Screening

☐ Thematic

☑ Integration

☐ Combination of ESG incorporation strategies

Impact on investment view or performance

Due to the deteriorated sustainability performance of a European country, its sustainability rating was downgraded from "average" to "relatively poor". Consequently, the limit volume available was cut further to an overall limit reduction by 30%.

☐ ESG issue 4

☐ ESG issue 5

Communication

FI 18	Mandatory	Core Assessed	PRI 2,6

FI 18.1 Indicate if your organisation proactively discloses information on your approach to ESG incorporation in all fixed income investments.

◉ We disclose it publicly

Provide URL

https://www.kfw.de/nachhaltigkeit/KfW-Group/Sustainability/Nachhaltiges-Investment/

Provide URL

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

FI 18.2 Indicate if the information disclosed to the public is the same as that disclosed to clients/beneficiaries.

◉ Yes

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FI 18.3	Indicate the information your organisation proactively discloses to clients/ beneficiaries and the public regarding your approach to ESG incorporation.

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

FI 18.4	Indicate how frequently you typically report this information.

- ○ Quarterly or more frequently
- ◉ Between quarterly and annually
- ○ Less frequently than annually
- ○ Other, specify

- ○ No
- ○ We disclose it to clients/beneficiaries only
- ○ We do not proactively disclose it to the public and/or clients/beneficiaries

Engagement in fixed income investments

Fixed Income - Corporate

FI 19	Voluntary	Descriptive	PRI 2

FI 19.1	Indicate if you engage with corporate issuers.

- ◉ Yes

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FI 19.2	Describe your organisation's approach to engagement in corporate fixed income.

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

Since KfW does not hold any shares as part of our securities investments, and is therefore unable to encourage the enterprises towards more sustainability through the active exercise of voting rights, KfW relies chiefly on dialogue with the issuers of the liquidity portfolio. Its sustainable investment approach focuses on an issuer's sustainability rating in relation to the sustainability ratings of all other issuers. This means that the issuers are in competition with the other issuers in the liquidity portfolio. Depending on the degree of an issuer's sustainable business practices, his sustainability rating can improve or deteriorate relative to the rating of all other issuers, which has an impact on the investable limit volume for the respective issuer. From our perspective, it is therefore essential to inform the issuers about their current sustainability rating on an ongoing basis, and to encourage them to maintain or strengthen their commitment to sustainability. 2013 we have send 95 letters to issuers world wide.

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

○ No

Fixed Income - Government

FI 20	Voluntary	Descriptive	PRI 2

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

○ Yes

◉ No

FI 20.3	Additional information.

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

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