



»»» “Green Bonds – Made by KfW” Framework

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Content

1.	Introduction	3
2.	Overarching Objective and Strategy	3
3.	Use of Proceeds	4
4.	Process for Project Evaluation and Selection	5
5.	Management of Proceeds	6
6.	Reporting	6
7.	External Review	7

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1. Introduction

This document sets forth the framework for the issuance of “Green Bonds – Made by KfW”. It represents the first revision of KfW’s Green Bond programme since its inauguration in 2014 and is valid for all “Green Bonds – Made by KfW” issued from 2019 onwards until further notice. Under its inaugural Green Bond framework, respectively Green Bond programme (2014-2018), KfW issued 18 “Green Bonds – Made by KfW” (including one *Schuldscheindarlehen*) totalling a EUR 14.5 billion equivalent.

This “Green Bonds – Made by KfW” framework is applicable to all kind of bonds and notes as well as *Schuldscheindarlehen* (promissory note loans) issued by KfW (together referred to as “Bonds”). “Green Bonds – Made by KfW” can be issued under KfW’s debt issuance programmes or as stand-alone issuances, in EUR and other currencies.

The Bonds under the “Green Bonds – Made by KfW” framework will constitute unsecured and unsubordinated bonds of KfW ranking *pari passu* among themselves and *pari passu* with all other unsecured and unsubordinated KfW bonds. Payment of principal and interest on “Green Bonds – Made by KfW” is based solely on the credit standing of KfW, and is not linked to the performance of the green projects underlying the Bonds. Consequently, “Green Bonds – Made by KfW” are expected to carry the same credit ratings as other outstanding bonds issued by KfW.

This framework is aligned with the 2018 edition of the Green Bond Principles¹ (“GBP”) issued in June 2018 and its four core components, as presented below and amended from time to time. “Green Bonds – Made by KfW” are “Standard Green Use of Proceeds Bonds” as per Appendix I to the GBP.

2. Overarching Objective and Strategy

KfW is the promotional bank of the Federal Republic of Germany. According to the Law Concerning KfW (*Gesetz über die Kreditanstalt für Wiederaufbau*, or the “KfW Law”), performing promotional tasks, in particular financings in the area of environmental protection, is one of KfW’s business purposes. Therefore, KfW finances measures to support renewable energies, improve energy efficiency, safeguard biodiversity and prevent and/or reduce environmental pollution. To address the particular importance of such measures, KfW has set an environmental commitment ratio of more than 35% of its total annual promotional business volume as a strategic objective.

It is KfW’s ambition to boost responsible investments and to promote environmental investments via the capital markets, as well as to support the transition to a low carbon economy. KfW believes that green bonds are an appropriate instrument to do so and that issuing “Green Bonds – Made by KfW” enhances KfW’s sustainability profile. Therefore, KfW since 2014 has been actively supporting the green bond market as an issuer of green bonds, as a vocal advocate of the green bond market, and, since 2015, as an investor in green bonds.

¹ <https://www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp/>

3. Use of Proceeds

An amount equal to the net proceeds of “Green Bonds – Made by KfW” (which proceeds may be converted into euros) will be used to finance **new** eligible green projects (the “Eligible Green Projects”, i.e. disbursed after the beginning of the year when the respective “Green Bonds – Made By KfW” are issued) from the following categories (the “Eligible Categories”):

- **Renewable energy:** all projects financed or co-financed under the KfW loan programme “Renewable Energies – Standard” (programme no. 270)² which provides financings for the construction, expansion and acquisition of plants generating power or heat from renewable energy sources that comply with the requirements defined by the German Renewable Energy Sources Act (Erneuerbare-Energien-Gesetz – EEG 2017, as amended). This covers in particular the following project types:
 - Photovoltaic panels;
 - Wind energy (including both onshore and offshore wind mills);
 - Hydropower (excluding plants with an installed power exceeding 20MW);
 - Electricity and heat generated in combined heat and power stations from solid biomass (only up to a size of 2MW), biogas or geothermal;
 - Biogas energy;
 - Grids and plants for the storage of heat or power, feed-in by renewable energy.

Projects can be located in Germany or outside Germany. Investments outside Germany are eligible for German companies, German citizens and joint ventures with a substantial German stake.

Excluded are:

- Plants for the generation of power or heat using fossil fuel as well as plants for heat storage that are directly linked to power or heat generated on the base of fossil fuels;
 - Any equipment for the use of nuclear power.
- **Energy efficiency:** all projects financed or co-financed under the KfW loan programme “Energy-efficient Construction” (programme no. 153)³ which provides financing for the construction of new energy-efficient residential buildings in Germany. This covers the following categories:
 - Construction of new energy-efficient buildings, including passive houses, which use 75% or less primary energy compared to the requirements of the current German energy saving ordinance for new buildings (EnEV 2016). Such buildings are compliant with the so-called KfW55/KfW40/KfW40plus standards⁴.

Eligible Green Projects contribute to at least one of the following Sustainable Development Goals (“SDG”) adopted by the United Nations in 2015:

- no. 7 - Affordable and Clean Energy
- no. 11 - Sustainable Cities and Communities
- no. 13 - Climate Action

² [https://www.kfw.de/inlandsfoerderung/Unternehmen/Energie-Umwelt/Foerderprodukte/Erneuerbare-Energien-Standard-\(270\)/](https://www.kfw.de/inlandsfoerderung/Unternehmen/Energie-Umwelt/Foerderprodukte/Erneuerbare-Energien-Standard-(270)/) (German only)

³ [https://www.kfw.de/inlandsfoerderung/Privatpersonen/Neubau/Finanzierungsangebote/Energieeffizient-Bauen-\(153\)/](https://www.kfw.de/inlandsfoerderung/Privatpersonen/Neubau/Finanzierungsangebote/Energieeffizient-Bauen-(153)/) (German only)

⁴ Primary energy consumption compared to EnEV 2016 for KfW55 ≤ 75% and KfW40(plus) ≤ 55%

4. Process for Project Evaluation and Selection

KfW defines detailed formal eligibility requirements for its two loan programmes “Renewable Energies – Standard” and “Energy-efficient Construction” which it extends via commercial banks to the ultimate borrower. Borrowers do not apply directly to KfW and may only apply for a KfW loan through a commercial bank. This intermediate bank appraises the financial and business situation of the applicant, takes collateral for the loan and assumes liability for repayment to KfW. The KfW loans on-lent by commercial banks are normally collateralized by liens on real property or other assets. The processing of individual loans within the two KfW loan programmes is characterized by two formally separate loan approvals – first by the intermediate bank and then by KfW – for each borrower. KfW’s loan approval, however, depends solely on a review of the individual loan application in order to assess compliance with the requirements defined for the respective loan programmes.

All Eligible Green Projects are screened according to KfW’s environmental and social risk management framework:

- For project locations in Germany, the comprehensive German environmental protection and social regulations apply and are monitored by the responsible authorities. So, KfW does not assess further environmental and social impacts of a particular measure.
- For project locations in other European Union (“EU”) countries and generally all other high income OECD countries outside the EU, an extensive set of rules and regulations for environmental and social issues are in place, enforced and applicable. So, KfW does not assess further environmental and social impacts of a particular measure.

For all other countries, KfW’s lending department assesses whether the planned measure may have any negative environmental or social impact. If a project is deemed to be environmentally or socially relevant, KfW’s Competence Centre for Environment and Sustainability examines the environmental and social effects in more detail. Projects must comply with national regulations of the investee country, including environmental and social requirements. However, they must be at least equivalent to the internationally recognised environmental and social standards, including those of the EU, the World Bank Group and the International Labour Organisation (ILO).

All projects approved by KfW’s lending department for the respective loan programmes will automatically qualify as an Eligible Green Project. There is no further selection or approval process.

5. Management of Proceeds

KfW has set up an internal process to track requests for disbursements for Eligible Green Projects and net proceeds of “Green Bonds – Made by KfW”. For each calendar year an internal register has been created. On a monthly basis, amounts matching requests for disbursements for Eligible Green Projects are allocated to the register starting with the beginning of the calendar year. Upon issuance of “Green Bonds – Made by KfW”, an amount equal to the net proceeds of such transactions (which proceeds may be converted into euros) is allocated to this internal register in the order of issuance. Net proceeds of non-euro “Green Bonds – Made by KfW” are converted into euros at the European Central Bank’s exchange reference rate on the respective pricing date. For any “Green Bond – Made by KfW”, KfW expects full allocation by the end of the year of issuance.

Net proceeds from the issuance of “Green Bonds – Made by KfW” will be used by KfW in its general business. “Green Bonds – Made by KfW” can be increased (tapped). In terms of management of proceeds and reporting, a tap is treated like a new issuance. As a result, KfW might report different use of proceeds and impact of the Bonds originally issued and the respective increase if the originally issued “Green Bond – Made by KfW” and the respective increase fall into different calendar years.

The maturity of “Green Bonds – Made by KfW” does not necessarily match the financings of the Eligible Green Projects. However, in order to reduce mismatches between such maturities the volume-weighted average maturity of the cumulated “Green Bonds – Made by KfW” issued in one calendar year may not exceed the average duration of the cumulated loan commitments for Eligible Green Projects of the preceding year.

6. Reporting

Following the issuance, the use of proceeds from “Green Bonds – Made by KfW” will be regularly monitored and reported on an annual basis until full allocation. This **allocation report** will show:

- The amount of allocated proceeds of “Green Bonds – Made by KfW” issued in the respective calendar year;
- The amount of unallocated proceeds of “Green Bonds – Made by KfW” issued in the respective calendar year, as the case may be;
- The breakdown by Eligible Category of the cumulated requests for disbursement of the respective calendar year;
- The breakdown by country of the cumulated requests for disbursement of the respective calendar year.

The allocation report is prepared on a portfolio basis for each calendar year and shows aggregate data (no project-by-project data). Such a non-dynamic portfolio is determined by all requests for disbursements for Eligible Green Projects reaching KfW between 1 January and 31 December of the same year. This portfolio is linked to the cumulated net proceeds of all “Green Bonds – Made by KfW” issued in the same calendar year. As a result, all “Green Bonds – Made by KfW” issued in one calendar year show the same allocation breakdown.

Additionally, an **impact report**, presenting the estimated environmental impact of the Eligible Green Projects, will be published once the impact of the underlying loan programmes has been evaluated for the respective year. This impact report shows a number of core indicators in accordance with the Harmonized Framework for Impact Reporting developed by a group of multilateral development banks including KfW⁵. The core indicators may include the following indicators:

⁵ <https://www.kfw.de/PDF/Investor-Relations/Pdf-Dokumente-Investor-Relations/Harmonized-Framework-for-Impact-Reporting.pdf>

- Renewable Energy:
 - Annual greenhouse gas (GHG) emissions reduced/avoided (tCO₂e)
 - Annual renewable energy generation (MWh)
 - Capacity of renewable energy added (MW)
- Energy Efficiency:
 - Annual greenhouse gas (GHG) emissions reduced/avoided (tCO₂e)
 - Annual energy savings (MWh)

The impact report will also outline the key underlying methodology and assumptions used to estimate such environmental impacts. The impact report is prepared on a portfolio basis and shows aggregate data (no project-by-project data) for each calendar year. Such a non-dynamic portfolio is determined by all loan commitments (or signed loan amounts) for Eligible Green Projects KfW made between 1 January and 31 December of the same year. This portfolio is linked to the cumulated net proceeds of all “Green Bonds – Made by KfW” issued in the same calendar year. As a result, all “Green Bonds – Made by KfW” issued in one calendar year show the same impact per unit financed.

Quantitative performance indicators of impact measurement are referring to loan commitments (or signed loan amounts) while allocation of proceeds is reported on requests for disbursements. Due to full or partial waivers of borrowers, requests for disbursements might be lower than loan commitments. Also disbursements in another calendar year than the commitments can cause a mismatch. KfW is aware of this potential mismatch which, in KfW’s view, is limited and therefore, will not be taken into account.

Reporting will be available on KfW’s website in English only.

7. External Review

Independent expert opinions, such as a Second Party Opinion (“SPO”) or an independent impact evaluation, on “Green Bonds – Made by KfW” are essential for KfW. Therefore, KfW has obtained a SPO for its “Green Bonds – Made by KfW” Framework from CICERO (Center for International Climate and Environmental Research Oslo/Norway), a qualified non-profit research centre. The SPO is published on KfW’s website. In addition, the positive environmental impact of KfW’s individual loan programmes underlying its “Green Bonds – Made by KfW” is evaluated by one or more independent institutions.

External Review will be available in English on KfW’s website only.

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