

CORPORATE GOVERNANCE REPORT

As a member of KfW Bankengruppe, KfW IPEX-Bank GmbH has committed itself to making responsible and transparent actions understandable. Both the Management Board and the Board of Supervisory Directors of KfW IPEX-Bank GmbH recognize the principles of the Public Corporate Governance Code of the German Federal Government (PCGC) for KfW IPEX-Bank GmbH. Therefore, beginning on 23 March 2011, a Declaration of Compliance was provided regarding the bank's compliance with the recommendations of the PCGC. Since then any potential deviations are disclosed and explained on an annual basis.

KfW IPEX-Bank GmbH has operated since 1 January 2008 as a legally independent, 100% owned subsidiary of KfW Bankengruppe. Its rules and regulations (articles of incorporation, rules of procedure for the Board of Supervisory Directors and the rules of procedure for the Managing Directors) contain the principles of the system of management and control by the governing bodies.

To implement the PCGC, KfW IPEX-Bank GmbH amended its rules and regulations during the summer of 2010, and included the recommendations and suggestions of the PCGC into its articles of incorporation, rules of procedure for the Board of Supervisory Directors and rules of procedure for the Managing Directors. The amended rules and regulations became effective on 13 July 2010.

Declaration of Compliance

The Management Board and the Board of Supervisory Directors of KfW IPEX-Bank GmbH hereby declare: "Since the last Declaration of Compliance submitted 23 March 2011, the recommendations of the Public Corporate Governance Code of the Federal Government, as adopted by the Federal Government on 1 July 2009, were and will continue to be fulfilled with the exception of the following recommendations."

D&O insurance deductible:

The existing D&O insurance contract between KfW and the insurance company is a group insurance policy which provides insurance cover to the members of the Management Board and the Board of Supervisory Directors of KfW IPEX-Bank GmbH. The existing D&O insurance contract does not include a deductible; this is contrary to clause 3.3.2 of the Code. The future form of the insurance is currently under consideration.

Delegation to committees:

The committees of the Board of Supervisory Directors of KfW IPEX-Bank GmbH, with the exception of the Loan Committee, provide only preparatory work for the Board of Supervisory Directors. The Loan Committee makes final credit decisions regarding loans that exceed certain predefined limits; this is contrary to clause 5.1.8 of the Code. This procedure is necessary for practical and efficiency reasons. The delegation of credit decisions to a loan committee is usual practice at banks. It is used to accelerate the decision-making process and to consolidate technical expertise within the committee.

Loans to member of the bodies:

According to the Rules of Procedure for the Board of Supervisory Directors applicable since summer 2011, KfW IPEX-Bank GmbH may not grant individual loans to Members of the Board of Supervisory Directors. Although the service contracts of the Management Board do not include a prohibition clause in this regard, neither do they grant an explicit legal entitlement. For reasons of equal treatment reasons, this does not apply - in derogation of clause 3.4 of the Code - to utilisation of promotional loans made available under the KfW programmes. Due to standardisation of lending and the principle of on-lending through applicants' own banks there is no danger of conflicts of interests concerning programme loans.

Cooperation between the Management Board and the Board of Supervisory Directors

The Board of Supervisory Directors and the Management Board work closely together for the benefit of KfW IPEX-Bank GmbH. The Management Board, particularly its Speaker, maintains regular contact with the Chairman of the Board of Supervisory Directors. The Management Board discusses important matters concerning the management of the bank and the bank's strategy with the Board of Supervisory Directors. With regard to issues of major significance, the Chairman of the Board of Supervisory Directors informs the Board of Supervisory Directors and, if necessary, convenes an extraordinary meeting.

During the reporting year, the Management Board informed the Board of Supervisory Directors about all relevant matters regarding KfW IPEX-Bank GmbH, particularly any questions concerning the bank's net assets, financial position and results of operations, risk assessment, risk management and risk control. In addition, they discussed the overall business development and strategic direction of the bank.

Management Board

The Managing Directors manage the activities of KfW IPEX-Bank GmbH with the appropriate due care and diligence of a prudent businessperson pursuant to the laws, articles of incorporation, procedural rules for the Managing Directors, as well as the decisions of the shareholders' general meeting and the Board of Supervisory Directors.

Through the appointment of Mr Harald D. Zenke as of 1 January 2011 and the retirement of Mr Michael Ebert from the Management Board as of 31 March 2011, and due to the relocation in KfW of the Controlling and Financial Statements departments

from the area of Finance, the responsibilities of members of the Management Board of KfW IPEX-Bank GmbH changed as followed in the reporting year:

- **Mr Harald D. Zenke**
 Speaker of the Management Board and Director of Products and Staff and (since 1 April 2011) Director of IT/Organisation
- **Mr Michael Ebert**
 (until 31 March 2011): Director of Finance & IT/Organisation
- **Ms Christiane Laibach**
 Director of Finance (since 1 April 2011) and Risk Management
- **Mr Christian K. Murach**
 Director of Transportation Sectors & Treasury
- **Mr Markus Scheer**
 Director of Industry Sectors

The members of the Management Board are obliged to act in the best interests of KfW IPEX-Bank GmbH, may not consider private interests in their decisions, and are subject to a comprehensive non-competition clause during their employment with KfW IPEX-Bank GmbH. The members of the Management Board must immediately disclose any conflicts of interest to the shareholder. No such situation occurred during the reporting year.

Board of Supervisory Directors

KfW IPEX-Bank GmbH has a voluntary Board of Supervisory Directors. The Board of Supervisory Directors advises and monitors the Management Board in the management of the bank.

In accordance with the articles of incorporation of KfW IPEX-Bank GmbH, the Board of Supervisory Directors consists of six members: two representatives from KfW, two representatives from the Federal Government – one each from the Federal Ministry of Finance and the Federal Ministry of Economics and Technology – and two representatives from industry. The current Chairman of the Board of Supervisory Directors, Dr Norbert Kloppeburg, is a representative of KfW. There were no women on the Board of Supervisory Directors during the reporting year.

Anyone with five or more corporate mandates from companies under the supervision of the German Federal Financial Services Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht, BaFin) may not serve as a member of the Board of Supervisory Directors. The members proposed by the Federal Government should in general not exercise more than three mandates in governing bodies. Furthermore, no member of the Board of Supervisory Directors may serve in a consulting or supervisory role for any significant competitor of the company. The members of the Board of Supervisory Directors complied with these recommendations during the reporting period. Conflicts of interest should be disclosed to the Board of Supervisory Directors. No such case occurred during the reporting period. One member of the Board of Supervisory Directors participated in less than half of the board meetings during the reporting year.

Committees of the Board of Supervisory Directors

The Board of Supervisory Directors has established three committees to fulfill its consulting and monitoring responsibilities in a more efficient manner.

The **Executive Committee** is responsible for all personnel related activities and the bank's management policies, as well as – in so far as necessary – preparation for the meetings of the Board of Supervisory Directors.

The **Loan Committee** is responsible for all credit related issues.

The **Audit Committee** is responsible for questions regarding accounting and risk management of the bank, as well as the preparatory work for the issuance of the audit mandate and the establishment of audit priorities as part of the annual audit of the bank's financial statements. It discusses the quarterly financial reports and the annual financial statements in preparation for the meetings of the full Board.

The chairs of the committees report to the Board of Supervisory Directors on a regular basis. The Board of Supervisory Directors has the right to change or rescind the competencies delegated to the committees at any time.

The Board of Supervisory Directors provides information about the work of the Board and its committees during the reporting year in its annual report. An overview of the members of the Board of Supervisory Directors and its committees is available on the website of KfW IPEX-Bank GmbH.

Shareholder

KfW IPEX-Beteiligungsholding GmbH owns 100% of the share capital of KfW IPEX-Bank GmbH. The general shareholders' meeting is responsible for all matters for which another governing body does not hold sole responsibility, either by law or by the articles of incorporation. It is responsible in particular for the approval of the annual financial statements and the appropriation of the annual profit or retained earnings, the determination of the amount available for payment of performance based, variable compensation within the bank, for the appointment and removal of members of the Board of Supervisory Directors or the Management Board, for their discharge at the end of each financial year, and for the appointment of the auditor.

Supervision

Since its incorporation, KfW IPEX-Bank GmbH has been fully subject to the provisions of the German Banking Act (Gesetz über das Kreditwesen, KWG). Effective 1 January 2008, *BaFin* granted a licence to the bank to act as an IRBA-bank (Internal Ratings Based Approach) for the rating of corporates, banks, sovereign countries and special financings (elementary approach). The bank uses the standard approach to calculate the regulatory capital requirements associated with operational risks. Due to the special status of KfW (supervision: Federal Ministry of Finance), there is a financial holding group within KfW IPEX-Beteiligungsholding GmbH that is important from a bank supervision standpoint. This holding group consists of KfW IPEX-Bank GmbH (the parent company) together with Railpool GmbH & Co. KG and MD Capital Beteiligungsgesellschaft mbH (subsidiary companies).

Protection of Deposits

Effective 1 January 2008, *BaFin* assigned KfW IPEX-Bank GmbH to the Statutory Compensation Scheme of the Federal Association of German Public Sector Banks GmbH. In addition, the bank is a member of the voluntary Deposit Protection Fund of the Federal Association of German Public Sector Banks.

Transparency

KfW IPEX-Bank GmbH provides all important information about the bank and its annual financial statements on its website. Company communications also provide information regularly regarding current bank developments. The annual Corporate Governance Report including the Declaration of Compliance with the PCGC are always available on the websites of KfW IPEX-Bank GmbH and KfW.

Risk Management

Risk management and risk controlling are primary responsibilities of the entire bank management in KfW IPEX-Bank GmbH. Using the risk strategy, the Management Board defines the framework for the bank's business activities regarding risk tolerance and the capacity to bear risk. In that way, it is ensured that KfW IPEX-Bank GmbH fulfills its unique responsibilities with an appropriate risk profile in a sustained, long-term manner. The total risk situation of the bank is analysed in a comprehensive manner using monthly risk reports to the Management Board and, if necessary, the Board then takes corrective action. The Board of Supervisory Directors is regularly given detailed information on the Bank's risk situation.

Compliance

Compliance with regulatory requirements and voluntary performance standards is part of the corporate culture of KfW IPEX-Bank GmbH. The compliance organisation of KfW IPEX-Bank GmbH includes, in particular, systems for data protection as well as for the prevention of conflicts of interest, insider trading, money laundering, financing of terrorism and other criminal activities. There are corresponding binding rules and procedures that influence the day-to-day implementation of such values and the associated corporate culture; these are continually updated to reflect the latest legal and regulatory framework as well as market requirements. Classroom training sessions regarding compliance and money laundering occur on a regular basis for the employees of KfW IPEX-Bank GmbH.

Accounting and Annual Audit

On 28 March 2011, the shareholder of KfW IPEX-Bank GmbH appointed KPMG AG Wirtschaftsprüfungsgesellschaft as auditor of the financial statements for the 2011 financial year. Thereafter, the Board of Supervisory Directors issued the audit mandate to KPMG on 5 August 2011 and determined the priorities for the audit with them. The bank and the auditor agreed that the Chairman of the Audit Committee would be immediately informed during the audit about any potential grounds for bias or disqualification that were not immediately rectified. It was furthermore agreed that the auditor would immediately inform the Audit Committee Chairman about any qualifying remarks or potential misstatements in the Declaration of Compliance with the PCGC. A declaration of auditor independence was obtained.

Efficiency Review of the Board of Supervisory Directors

The Board of Supervisory Directors reviews the efficiency of its activities on a regular basis. A self-assessment of the Board of Supervisory Directors was conducted for 2011 using a structured questionnaire. All six members participated in the efficiency review. The overall results of the survey are considered positive. Opportunities for improvement were taken up by the Board of Supervisory Directors and the Management Board. All participants work continuously on their implementation and monitoring.

Compensation Report

The compensation report describes the basic structure of the remuneration plan for members of the Management Board and Board of Supervisory Directors; it also discloses the remuneration of the individual members. The compensation report is an integral part of the notes to the financial statements.

Compensation for the Management Board

The compensation system for the Management Board of KfW IPEX-Bank GmbH is intended to remunerate the members of the Management Board according to their roles and areas of responsibility and to take account of the individual achievements and success of the bank.

The remuneration of the Management Board consists of a fixed, annual base salary, and a variable, performance based bonus. Existing contracts concluded before 2010 additionally include a fixed

Summary of the total compensation for the Management Board and Board of Supervisory Directors

	2011	2010	Change
	EUR in thousands	EUR in thousands	EUR in thousands
Members of the Management Board (including previous members of the Management Board)	2,554	1,833	+721
Members of the Board of Supervisory Directors	150	199	- 49
Total	2,704	2,032	+672

bonus component. This is not included in contracts concluded since 2010. All new contracts from 2010 onwards are in accordance with KWG Section 25a Para. (5) in association with the German Insti- tutsvergütungsverordnung (Compensation Regu- lation for Institutions). The establishment of the variable, performance based bonus component is based upon an agreement regarding targets be- tween the shareholder and the Management Board that is concluded at the beginning of each year after consultation with the Board of Supervi- sory Directors. These targets include financial, quantitative and qualitative targets for the entire bank, and individual personal targets for each member of the Management Board. 50% of the performance based bonus, calculated according to achievement of targets, is paid out immediately. The remaining 50% is reserved as a provisional claim and paid out into a so-called "bonus ac- count". They are paid out in equal instalments over the following three years, provided that the bank does not materially miss its financial targets. Re- ductions in provisional claims, up to and including complete elimination, are possible depending upon the financial performance of the bank.

Responsibilities

The shareholder consults regularly regarding the compensation system for the Management Board, including its contractual elements, and reviews it

on a regular basis. The shareholder approves the compensation system after consulting with the Board of Supervisory Directors. The most recent review of its appropriateness occurred in the framework of the negotiations of new contracts for the Management Board in 2010.

The following overview presents the total com- pensation for the individual members of the Man- agement Board, divided into fixed and variable compensation components and other compensa- tion, as well as additions to pension provisions.

Contractual fringe benefits

Other compensation primarily includes contrac- tual fringe benefits. The Managing Directors of KfW IPEX Bank GmbH are entitled to a company car for both company and private use. Costs in- curred as a result of private usage of a company car are borne by the members of the Management Board in accordance with currently valid tax legis- lation. The costs of a second household, incurred as the result of a business need for a second resi- dence, are reimbursed according to tax legislation.

The members of the Management Board are in- sured in a group accident insurance policy.

In addition, the members of the Management Board receive employer benefits as per the Social Security Code. There are two insurance policies

available to members of the Management Board regarding the risks associated with their activi- ties in the bank's governing bodies: first, a policy that covers their liability for monetary damages (D&O insurance) and second, a supplementary monetary damages legal protection insurance. These insurance policies are designed as group insurance. The D&O insurance provides protec- tion against financial losses that may arise out of the performance of duties as a Managing Di- rector of KfW IPEX-Bank GmbH. There is cur- rently no deductible associated with this insur- ance. As part of their activities, the members of the Management Board of KfW IPEX-Bank GmbH are also included in a special criminal law pro- tection insurance for employees that was estab- lished as a group insurance policy.

Furthermore, other remuneration includes com- pensation received for the exercise of corporate mandates. Should the total compensation for mandates held by a Managing Director exceed EUR 25,000, then 50% of the amount that exceeds this limit must be paid over to KfW IPEX-Bank GmbH. For Managing Director contracts negoti- ated from 2010 onwards, the members of the Management Board are personally entitled to the entire amount of the remuneration earned from corporate mandates. In 2011 and 2010 the mem-

Annual compensation to members of the Management Board and additions to pension provisions during 2011 and 2010 in EUR thousands¹⁾

	Year	Salary	Variable compensation	Other compensation	Total	"Bonus account"	Additions to pension provisions
Harald D. Zenke (Speaker of the Management Board)	2011	353	-	71	423	-	311
	2010	-	-	-	-	-	-
Michael Ebert (until 31 March 2011)	2011	163	108	9	280	-	247
	2010	395	-	26	421	-	149
Heinrich Heims (Speaker of the Management Board until 12 August 2010)	2011	-	-	581 ²⁾	581	-	125
	2010	338	-	15	353	-	-132
Christiane Laibach	2011	353	45	21	418	45	118
	2010	338	-	10	348	-	86
Christian K. Murach	2011	353	45	27	424	45	146
	2010	338	-	16	354	-	167
Markus Scheer	2011	353	45	29	427	45	125
	2010	338	-	19	357	-	86
Total	2011	1,573	243	738	2,554	135	1,072
	2010	1,747	-	86	1,833	-	356

¹⁾ Some independent rounding may occur in the table due to computational reasons.

²⁾ Other compensation in the case of premature retirement

bers of the Management Board did not receive compensation for exercising corporate mandates.

The members of the Management Board are entitled, like all other members of the bank's staff, to participate in a deferred compensation, supplemental company pension plan through deferred compensation payments deducted from salary, insofar as such a plan is generally offered.

As contractual fringe benefit, the costs of security measures for residential property occupied by members of the Management Board are assumed to a reasonable extent by the bank on the basis of a security concept. These security costs are reported under non-personnel expenses.

Contractual fringe benefits that cannot be granted tax-free are subject to taxation as non-cash benefits for members of the Management Board.

There were no outstanding loans to members of the Management Board at year end.

Retirement pension payments and other benefits in the case of premature retirement

The members of the Management Board are entitled to receive retirement pension payments after leaving KfW IPEX-Bank GmbH. These pension plans, which aim to provide not only for the members of the Management Board but also for their survivors, are based upon the Principles for the Appointment of Board Members at German Federal Lending Institutions, as amended in 1992. No retirement pension payments were made to former Managing Directors during the 2011 financial year.

Provisions for pension obligations for former members of the Management Board and their dependants totalled EUR 5,258 thousand at the

end of the business year 2011 (previous year: EUR 2,556 thousand).

Compensation for the Board of Supervisory Directors

The members of the Board of Supervisory Directors receive annual compensation at a level determined by the general shareholders' meeting. Per the shareholder resolution of 14 April 2010, the compensation scheme of 2008 and 2009 was continued in 2010 and for the following years. According to its provisions, the annual compensation for a member of the Board of Supervisory Directors is EUR 22,000; the annual compensation for the Chairman is EUR 28,600.

Compensation is earned on a pro-rata basis when service is for a partial year.

Remuneration of the Board of Supervisory Directors for 2011 in EUR

Member	Dates of Membership in 2011	Annual compensation	Attendance fees ¹⁾	Total
Dr Kloppenburg	1 Jan. – 31 Dec.	14,300	5,000	19,300
Dr Schröder	1 Jan. – 31 Mar.	5,500	1,000	6,500
Mr Loewen	1 Jul. – 31 Dec.	–	–	–
State Secretary Dr Beus ²⁾	1 Jan. – 31 Dec.	22,000	11,000	33,000
State Secretary Dr Pfaffenbach ²⁾	1 Jan. – 31 May	9,167	2,000	11,167
State Secretary Mr Homann ²⁾	1 Jul. – 31 Dec.	11,000	1,000	12,000
Dr Rupp	1 Jan. – 31 Dec.	22,000	12,000	34,000
Mr Stupperich	1 Jan. – 31 Dec.	22,000	12,000	34,000
Total		105,967	44,000	149,967

¹⁾ Lump sum EUR 1,000 net per meeting attended.

²⁾ This amount is subject to the German Incidental Services Earnings Regulation (Bundesnebenverdienstverordnung).

Remuneration to the Board of Supervisory Directors for 2010 in EUR

Member	Dates of Membership in 2010	Annual compensation	Attendance fees ¹⁾	Total
Dr Kloppenburg	1 Jan. – 31 Dec.	28,600	14,000	42,600
Dr Schröder	1 Jan. – 31 Dec.	22,000	5,000	27,000
State Secretary Dr Beus ²⁾	4 Mar. – 31 Dec.	18,334	12,000	30,334
State Secretary Mr Gatzler ²⁾	1 Jan. – 31 Jan.	1,834	0	1,834
State Secretary Dr Pfaffenbach ²⁾	1 Jan. – 31 Dec.	22,000	4,000	26,000
Dr Rupp	1 Jan. – 31 Dec.	22,000	14,000	36,000
Herr Stupperich	1 Jan. – 31 Dec.	22,000	14,000	36,000
Total		136,768	63,000	199,768

¹⁾ Lump sum EUR 1,000 net per meeting attended.

²⁾ This amount is subject to the German Incidental Services Earnings Regulation (Bundesnebenverdienstverordnung).

In addition, the members of the Board of Supervisory Directors receive a net fee of EUR 1,000 for each meeting of the Board of Supervisory Directors or of one of its committees. Furthermore, members of the Board of Supervisory Directors are entitled to reimbursement for travel expenses and other miscellaneous expenses that they incur within reasonable amounts.

Effective 1 July 2011, the representatives of KfW in the Board of Supervisory Directors of KfW IPEX-Bank GmbH have for the first time waived the compensation and attendance fees for the rest of the business year 2011 in accordance with a general decision of unlimited duration by the Executive Board of KfW to waive compensation for group-internal mandates. Details regarding the remuneration of the Board of Supervisory Directors during the 2011 and 2010

financial years are listed in the following tables; travel expenses and other miscellaneous expenses were reimbursed based upon receipts and are therefore not included in this table. The indicated amounts are net values and were all paid.

There are no pension obligations with regard to members of the Board of Supervisory Directors.

Members of the Board of Supervisory Directors did not receive any remuneration for services provided personally during the reporting year.

No direct loans were made to members of the Board of Supervisory Directors during the reporting year.

The members of the Board of Supervisory Directors are included in two insurance policies of KfW: first, the policy regarding the risks associated with

their activities in the bank's governing bodies that covers their liability for monetary damages (D&O insurance) and second, the supplementary monetary damages legal protection insurance. The D&O insurance provides protection against financial losses that may arise out of conducting the business of the Board of Supervisory Directors. There is no deductible associated with this insurance. As part of their activities, the Members of the Board of Supervisory Directors of KfW IPEX-Bank GmbH are also included in a special criminal law protection insurance for employees that was established by KfW as a group insurance policy.

Frankfurt, 19 March 2012

The Management Board

The Board of Supervisory Directors