KFW IPEX-BANK

ANNUAL REPORT

2008

kfw
IPEX-BANK

AN IDEA MARKS THE START OF EVERY PROJECT...

...OUR CUSTOMERS NEED TO LET THEIR ENERGY UNFOLD. TO ENABLE THEM TO DO SO, WE SUPPORT THEM WITH TAILORED FINANCING AND ABOVE ALL WITH THE KNOWLEDGE OF EXPERIENCED EXPERT PROJECT AND EXPORT FINANCIERS. AROUND THE WORLD. WE PUT MORE MOVEMENT INTO THE GLOBAL ECONOMY. BECAUSE SOUND BUSINESS IDEAS DESERVE SPECIAL SUPPORT SO THAT THEY CAN TRANSCEND BORDERS AND LIMITATIONS.

KFW IPEX-BANK

KFW IPEX-BANK GMBH KEY FIGURES

	2008
KfW IPEX-Bank GmbH credit volume by business sector – as at 31 December 2008	EUR in billions
Shipping	8.0
Manufacturing Industries, Retail, Health	5.1
Power, Renewables and Water	4.1
Basic Industries	4.5
Rail and Road	3.8
Aviation	2.5
Ports, Airports, Real Estate, Construction Industry/PPP	1.9
Telecommunications, Media	1.8
Leveraged Finance, Mezzanine, Equity	1.1
Financial Institutions, Trade & Commodity Finance	0.6
	33.3
Other receivables	1.1
Total	34.4
Held in trust for KfW	25.3
Securities	3.8
Other assets	0.2

Balance sheet – as at 31 December 2008	EUR in billions
Total assets, KfW IPEX-Bank GmbH	53.3
Equity, KfW IPEX-Bank GmbH	2.6
Volume of business (total assets, contingent liabilities, irrevocable loan commitments)	63.7

Results	EUR in billions
Operating income before risk provisions and valuations, KfW IPEX-Bank GmbH	240.3
Net income, KfW IPEX-Bank GmbH	5.1
Result of Project and Export Finance business unit (as per International Financial Reporting Standards), as reported in KfW consolidated financial statements	*222*

Number of employees	**490**

Differences in totals due to rounding

2008

KFW IPEX-BANK 2008

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NEW THRUST INTO THE FUTURE

Cologne/Bonn airport extension.
Financing partner: KfW

DEAR READERS

2008 was a very challenging but also successful year for KfW IPEX-Bank GmbH. Since 1 January 2008 we have been operating in the market as a legally independent, wholly-owned subsidiary of KfW. We worked carefully with KfW to prepare for this legal separation and we are delighted that the process ran so smoothly.

"WE ARE VERY SATISFIED WITH THE RESULT OF OUR FIRST YEAR OF INDEPENDENCE".

Heinrich Heims, Speaker of the Board of Managing Directors

We had expected that a certain degree of normalcy would return to our bank following the intense preparation for this step. But it turned out differently: even KfW IPEX-Bank was not immune to the turbulence that hit the financial markets in 2008. Thanks to our stable business model and the many years of experience and market expertise of our employees, we dealt well with these challenges in the first year of our independence.

Within KfW Bankengruppe, we are responsible for international project and export finance.

Our business is clearly defined. Within KfW Bankengruppe, KfW IPEX-Bank focuses on international project and export finance. This includes all of the exposures that we report in the KfW IPEX-Bank balance sheet that are referred to as competitive business. Our exposures also include the export and project finance transactions remaining with KfW, as well as all project and export finance classified as promotional business according to the second understanding reached with the EU. We handle these transactions for KfW on a trust basis. This means our business activities are in accordance with the task specified in the Law Concerning KfW (KfW Law): to promote the German and European economies by providing customised financing inside Germany and abroad. Our transactions make a significant contribution to KfW's promotional capacity.

We met the targets we had set ourselves for this year, and we significantly exceeded some of them. Despite the upheaval in the global economy, we can demonstrate a healthy level of new business and a good operating result. In our original competitive business, we concluded financing transactions amounting to more than EUR 12.6 billion The volume of transactions administered for KfW on a trust basis amounted to EUR 5 billion. Due to this positive new business development, our balance sheet total has grown to EUR 53.3 billion and our operating income is around EUR 240 million, which is higher than planned. As at the end of 2008, we were responsible for a volume of business of EUR 63.7 billion, making us one of the major specialist financiers in our segment.

We have allocated our operating income primarily to risk provisions for lending business. In addition, we have had to accept write-downs on the securities in our liquidity portfolio. Although the risk provision necessary in 2008 leaves no room for the profit we had planned for the year, given the current situation we are satisfied with our overall result.

Our balance sheet for fiscal year 2008 looks good not only in terms of numbers. We have also expanded our product range to serve our customers better by adding the area of trade finance.

Additionally, we have intensified our leasing activities. In July, we established the Railpool GmbH leasing company as an asset manager in the rail area together with HSH Nordbank. The company has gotten off to a very positive start with its first large orders.

As an international project and export financier, it is important for KfW IPEX-Bank to be represented in its customers' local target markets. As a result, converting our London representative office into a separate branch was an important milestone in our international strategy. In addition, we added an office in Johannesburg to our network, and another office is currently being set up in Abu Dhabi.

Our international offices represent us abroad.

Outside Germany, we are expanding our organisation on our customers' behalf, and domestically we are implementing an organisation that is not only customer-orientated but is also good news for our employees. In 2008, we initiated an extensive examination of the entire credit process used in our bank that is due to be completed in 2009. We intend to improve the quality of our procedures significantly. We would like to attain an even more pronounced customer orientation, a greater focus on risk management and an even higher level of employee satisfaction.

Although 2009 will surely be a difficult year, KfW IPEX-Bank intends to remain a reliable financing partner.

2009 will present us with even more challenges. Given the generally poor condition of the global economy we are expecting some customers to postpone or cancel planned investments, which will lead to reduced demand for financing. We are also assuming that the financial crisis will result in fewer banks being available to provide medium- and long-term finance. As a result, it will probably not be easy to conclude new transactions. We aim to stand by our customers as a reliable financing partner even in the difficult environment of 2009. We are intent on managing our business with foresight and caution. And in 2009 we will use our outstanding industry knowledge to deliver a contribution to putting publicly supported finance to work for export business.

KfW IPEX-Bank is keeping its finger on the pulse of the economy and is prepared for the possibility of further turbulence. We know the markets within which we operate very well and have weathered previous crises successfully. The fact that we are well prepared for the coming year is indicated by our consistently excellent external ratings of AA– and Aa3.

Our success is based on our customers' confidence, the support of our shareholder and the commitment and abilities of our employees. We extend our particular thanks to all of them for their excellent performance in 2008.

KFW IPEX-BANK BOARD OF MANAGING DIRECTORS

From left to right: Christian K. Murach, Michael Ebert, Heinrich Heims (Speaker), Christiane Laibach, Markus Scheer

Christian K. Murach

Heinrich Heims
(Speaker)

Markus Scheer

Michael Ebert

Christiane Laibach

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The Aker MTW shipyard in Wismar (today Wadan Yard MTW GmbH) builds an AIDA cruise ship. Launch 2002.

CLEAR THE DECKS

BUILT TO LAST – ALSO ON STORMY DAYS.

A PERFECT LAUNCH

CHART THE COURSE BEFORE YOU HEAD OUT TO SEA – THE THOROUGH PREPARATIONS KFW IPEX-BANK MADE FOR ITS INDEPENDENCE HAVE PAID OFF.

2008 was an especially challenging year, not only for KfW IPEX-Bank. The turbulence in the financial markets put nearly all banks to a difficult test. Against the background of the prevailing market situation, we evaluate KfW IPEX-Bank's results as extremely satisfactory. KfW IPEX-Bank has clearly met the goals set for the first year of its independence in regard to the course of its legal separation, new business activities and balance sheet growth. It is now responsible for the International Project and Export Finance business area within KfW Bankengruppe. Due to its commitment in that area, it has also made a significant contribution to safeguarding KfW's ability to provide promotional support in 2008.

The fundamental importance of KfW IPEX-Bank for KfW Bankengruppe was also confirmed in 2008 by the auditing firm Deloitte & Touche. Commissioned by the German Federal Ministry of Economics and Technology, they examined the impact of a possible sale of KfW IPEX-Bank on KfW's ability to provide promotional support. The study concludes that viewed as a whole, a sale would adversely affect KfW's promotional capacity.

The previous fiscal year was characterised by close collaboration. The Board of Managing Directors continuously instructed the Board of Supervisory Directors on all important developments involving KfW IPEX-Bank, promptly and in full detail. We regularly monitored the Board of Managing Directors in its management of the company and consulted with it in full detail. We were involved in all decisions of major importance and granted our approval to the corresponding transactions as required, after comprehensive consultation and examination.

In the 2008 fiscal year, four regular meetings of the Board of Supervisory Directors were held. In the meetings, the Board of Managing Directors explained the respective, current business developments and the quarterly results. In the first meeting on 16 April 2008, the primary topics were the Board of Managing Directors' report on the results of the 2008 fiscal year, the structural organisation and new business planning. In addition, the strategy in foreign countries was discussed. The decision to establish the London branch was also taken. The Board of Supervisory Directors intensively reviewed the risk/performance report of 31 December 2007 and the KfW IPEX-Bank management report for fiscal year 2007 as well as the recommendations on profit distribution. The appointment of Ms Christiane Laibach as the fifth member of the Board of Managing Directors was also noted with approval. In the meeting on 19 July 2008, we discussed the current performance and risk situation. In the meeting on 2 October 2008, the contribution of KfW IPEX-Bank to the group business area planning for 2009 was highlighted, as was the Audit Committee report on the half-year financial statements. The report on the performance and risk situation, which was drawn up against the background of the financial market crisis, was taken note of. In addition, the Board of Supervisory Directors was

"THE BOARD OF MANAGING DIRECTORS AND THE BOARD OF SUPERVISORY DIRECTORS OF KFW IPEX-BANK WORK IN CLOSE COLLABORATION".

Dr Norbert Kloppenburg, Chairman of the Board of Supervisory Directors

instructed that Mrs Ingrid Matthäus-Maier had withdrawn from the Board of Supervisory Directors and that Dr Günther Bräunig would assume her seat. The meeting on 12 December 2008 was devoted to explaining in detail the capital increase adopted at the beginning of December 2008 and the additional capitalisation activities via KfW planned for the beginning of 2009. The Board of Supervisory Directors was informed that State Secretary Werner Gatzer had assumed the seat of State Secretary Dr Axel Nawrath on 27 November 2008.

According to the rules and regulations of KfW IPEX-Bank, the Board of Supervisory Directors has an Executive Committee, a Loan Committee and an Audit Committee. The committees duly performed their assigned tasks in 2008.

The Audit Committee discussed the results of the financial statements audit in its meeting on 20 March 2009, and recommended the approval of the annual financial statements and the management report to the Board of Supervisory Directors. The basis of discussion was the PwC auditing firm report (partial audit report II) on the audit of the annual financial statements provided by the Board of Managing Directors on 24 February 2009 and the management report for fiscal year 2008. PwC issued an unqualified auditor's report on 3 March 2009.

According to the concluding examination of the Board of Supervisory Directors, there are no reservations in regard to the annual financial statements and the management report. We also approved the result of the audit in our first regular meeting on 20 March 2009. We have presented the annual financial statements to the shareholder meeting for approval.

The Board of Supervisory Directors agrees with the recommendation of the Board of Managing Directors to allocate the full amount of the net income for fiscal year 2008 (EUR 5,149,107.30) to other retained earnings.

We would like to thank the Board of Managing Directors and all employees for their commitment and performance in fiscal year 2008.

Frankfurt am Main, 20 March 2009

For the Board of Supervisory Directors

Dr Norbert Kloppenburg
Chairman

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KfW-financed container terminal in Altenwerder starts work.

POSITIONED TO MOVE THE ECONOMY

THE ACTIVITIES OF KFW IPEX-BANK AS A REFLECTION OF GERMAN AND EUROPEAN ECONOMIC STRENGTH.

TOGETHER WITH OUR CUSTOMERS, WE OPEN UP THE WORLD

KFW IPEX-BANK – OUR NAME SPEAKS FOR ITSELF. AS PART OF KFW BANKENGRUPPE, WE ARE EXACTLY THE RIGHT PARTNER WHEN IT COMES TO INDIVIDUAL FINANCING SOLUTIONS FOR OUR CUSTOMERS' INTERNATIONAL INVESTMENT AND EXPORT PLANS – IN THIS WE HAVE MORE THAN 50 YEARS OF EXPERIENCE.

Our mission: to provide financing in the interest of the German and European economies

KfW IPEX-Bank supports the German and European economies in securing the market positions they have achieved and opening up new markets around the world. The optimal supply of financing to our customers – internationally orientated, large- and medium-sized companies – is the top priority of all of our activities.

Our core product consists in medium- and long-term loans for investments and exports. The product spectrum of our financing solutions includes export and trade finance, asset and project finance, leasing, investment and acquisition finance, infrastructure finance and the financing of raw materials projects – all of which are the object of German or European interests. It also includes commercially available financial derivative products such as cross-currency swaps for our customers' risk management.

With a business volume of EUR 63.7 billion, we are a large, globally active lending institution. We also consciously target our business to markets in which access to financing is complicated. Because we always focus on the investment and export interests of our customers. We respond flexibly to our customers' needs and create customised financing solutions together with them. To achieve that, we package individual finance products in innovative combinations.

OUR RATING – TOP GRADES

The Standard & Poor's and Moody's rating agencies assigned KfW IPEX-Bank GmbH a long-term rating of AA– and Aa3, respectively. Our outstanding creditworthiness compared to other banks is based especially on our established market position in international project and export finance. We have been successful in that area worldwide for over 50 years. This good rating is also based on our bank's solid equity base and its close ties to KfW Bankengruppe.

We are a 100 % subsidiary of KfW Bankengruppe

As a wholly-owned subsidiary of KfW, KfW IPEX-Bank GmbH is an important part of KfW Bankengruppe. On 1 January 2008, we became legally independent. According to the May 2002 understanding reached with the EU on promotional banks, all transactions of KfW that are subject to competition in the financial services sector had to be separated from the promotional activities.

We consider ourselves to be a part of the statutory mandate and mission of KfW to strengthen the German and European economies for the long term against the background of advancing globalisation.

KfW IPEX-Bank is a key contributor to the consolidated result of KfW Bankengruppe and to safeguarding KfW's promotional capacity.

We make a variety of contributions to KfW Bankengruppe.

In addition, we make a significant contribution to the international identity and reputation of KfW Bankengruppe and provide essential knowledge for the entire Group. We play a major role in the group-wide exchange of experience.

SOPHISTICATED METHODOLOGY FOR RISK MANAGEMENT

KfW IPEX-Bank is subject to the German Banking Act *(Gesetz über das Kreditwesen, KWG)* and is supervised by the German Financial Supervisory Authority BaFin and Deutsche Bundesbank, the German central bank.

We act according to the highest standards of banking professionalism. In doing so, we rely on sophisticated instruments for risk measurement and management.

For quantifying and monitoring credit risks, we use a methodologically uniform risk management system within KfW Bankengruppe. When BaFin granted KfW IPEX-Bank a banking licence, they also approved it as an advanced IRB bank. The financial supervisory body has thus certified that our internal risk measurement procedures meet the most advanced requirements of the supervisory guidelines.

Our business strategy

KfW IPEX-Bank makes a significant contribution to KfW Bankengruppe's legal mandate and mission to support the economic interests of Germany and Europe at home and abroad with commercial financing. Our product spectrum is focused on the investment and export activities of internationally orientated, large- and medium-sized companies. We assist those companies by providing project and export financing, leasing and acquisition financing, among others.

We support our customers and their projects around the world. Our regional focus is therefore on the growth markets for exports and direct investments that are important for the German and European economies. In Europe, that means Turkey and Russia. The list also includes the MENA countries, parts of Asia, Latin America and (for certain industries) North America and, increasingly, Africa. Germany and the rest of Europe are also focal areas of our loan portfolio, each accounting for one-third.

Our values and self-image

Service, market economy, sustainability, responsibility, creativity, humanity and tolerance: these are the fundamental values we uphold. They provide the criteria for the sense and sustainability of our thoughts and actions. We recognise them and uphold them as the standards by which we are measured – by our customers and partners and by our employees and colleagues.

As a result, we feel obligated to critically analyse our actions repeatedly. What can we do to provide our customers with solutions from which they can benefit in the long term? What we can do to provide our employees with an environment in which they feel comfortable and can enhance their skills? We devote time to these considerations because we send a message through our work and our behaviour – internally as well as externally.

We know that only reliability and quality lead to sustainable success, and our customers can rely on us to support them as an expert, strong partner.

Our responsibility to environmental and social policy

As a significant project and export finance company and wholly-owned subsidiary of KfW, we are aware of our special social responsibility and fulfil it through sustainable actions. To us, sustainability means economic activity that safeguards the livelihoods and quality of life of future generations. That is why we vet all of our projects in regard to their environmental and social aspects.

To do that, we have drawn up a guideline for assessing the environmental and social impact of projects that we finance. We have also set up a mandatory environmental management system.

Our environmental standards are high as our assessments are based on the material standards of the World Bank as a minimum requirement.

On 1 March 2008, KfW IPEX-Bank adopted the Equator Principles, which are standards for environmental and social impact assessments that banks around the world involved in project financing have agreed to uphold.

In principle, KfW IPEX-Bank only becomes involved in financing projects that are in line with the legal environmental provisions of the investment country and other internationally accepted standards.

Partnership and customer orientation mean having an international presence

As a partner in finance, we would like to be as close to our customers as possible in order to consult and supervise their projects as optimally as possible. That is why we are represented in the most important business and financial centres of our key growth regions.

With the branch in London established in 2008 and our worldwide offices, we have an optimised network with our target markets and can provide our customers with comprehensive service.

As a specialist financier, we concentrate on the producing industries as well as raw materials, transport and infrastructure projects. The sectoral focus is also reflected in the organisational structure of our bank's business sectors. Our employees and financing experts are proven specialists in their industries and markets. KfW IPEX-Bank customers appreciate the resulting special industry know-how we can offer them.

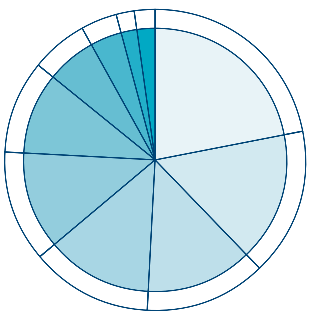
OUR CUSTOMER RELATIONSHIP PRINCIPLE

Companies that export goods or participate in international projects today have to be able to deal with increasing complexity and greater risk in a number of industries and countries. That makes it even more important for them to have an experienced, reliable partner at their side.

Our customer relations principle is based on continuity and long-term, in-depth knowledge and experience. We are experts in our respective business sectors and regions.

We have never pulled out of a market or customer relationship at the first signs of an impending problem. Instead, we work with our customers to develop appropriate solutions.

Loan portfolios by business sector
As at: 31 December 2008



Shipping	22%
Power, Renewables and Water	16%
Rail and Road	13%
Basic Industries	13%
Aviation	12%
Manufacturing Industries, Retail, Health	10%
Ports, Airports, Real Estate, Construction Industry/PPP	6%
Telecommunications, Media	4%
Financial Institutions, Trade & Commodity Finance	2%
Leveraged Finance, Mezzanine, Equity	2%

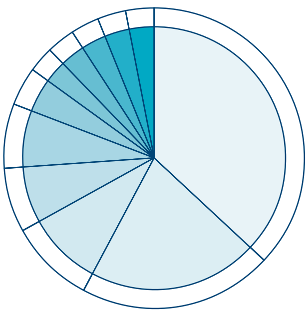
STEAMING ALONG ON AN OPTIMAL COURSE

The maritime industry is one of the most important building blocks of global economic integration. Substantial investments in merchant shipping, offshore exploration and production, and passenger shipping are characteristic for the industry. KfW IPEX-Bank is a major international ship financier.

2008 was a thoroughly remarkable year for the maritime industry. Investment activity remained at a high level until the middle of the year. The subsequent drop in container and bulk cargo shipping volumes caused a clear reversal of a very strong five-year growth trend. In the fourth quarter the financial market crisis led to financing bottlenecks even for solid investment projects. Especially in Europe, owner-managed, medium-sized family businesses are particularly successful in shipbuilding and in operating tankers and freighters around the world. Individually structuring loans for customers such that collateral and cash flow are both factored in is the expertise of KfW IPEX-Bank. In doing so we often involve public credit insurance institutions that support national shipbuilding and thus also benefit our customers. In Germany, that includes the extensive instruments for supporting the maritime industry provided by the federal and state governments in the form of credit risk assumption and generally accessible interest rate support mechanisms of the German Government.

We finance almost all types of ship, usually in the leading role and often jointly with other banks. Our customers are primarily located in Germany and other maritime centres throughout Europe. Through their European export business, our customers also include companies around the world.

Diversified portfolio
As at: 31 December 2008



Container ships	37 %
Cruise ships	21 %
Product tankers	9 %
Bulk cargo freighters	7 %
Ferries	7 %
Gas tankers	4 %
Offshore ships	3 %
Auto transporters	3 %
Shipyards	3 %
Crude oil tankers	3 %
Multi-purpose freighters	3 %

"We optimise financing for our customers with all of the instruments at our command".
Dr Carsten Wiebers,
Senior Vice President Shipping

GERMAN QUALITY SHIPYARD WORK

Space for 2,850 passengers on 17 decks, 10 restaurants, cafés, 16 bars, shops, a theatre, a glass-blowing atelier and a 2,130 square metre lawn with real grass – those are only some of the highlights on board the Post-Panamax "Celebrity Solstice" cruise ship. The extremely environmentally friendly oceanic giant, at 317 metres three times the length of a football field, was built at the Meyer shipyard in Germany with the support of KfW IPEX-Bank.

OUR MOST IMPORTANT RESOURCE: EXPERTISE

Companies in cyclical industries such as steel, mining, petrochemicals or pulp & paper need a variety of short- and long-term financing instruments. The demand for financing to cover new machine and plant investments is correspondingly high.

In the Basic Industries business sector, KfW IPEX-Bank supports its customers with large-scale financing projects. We typically provide loans with terms of between eight and 12 years. We are also prepared to finance working capital. We know that companies require bridge financing in order to close the time gap between the purchase of raw materials and the sale of the intermediate or final product. Whether short- or long-term exposure – every financing package for companies in the Basic Industries sector is put together individually and customised to optimally meet customer needs. We create comprehensive financing packages which typically include cooperation schemes with other banks. In addition, we are well versed in structuring financing packages that cover possible political risks. A long-term partnership has to have a stable foundation. Companies in industries subject to cyclical swings such as steel or mining that want to be successful need a partner that, in addition to structuring individual offers for them, will act reliably in the long term – in boom phases as well as in economically weaker ones. Despite the current volatility of raw materials prices, we are confident that the fundamental data will continue to support successful projects in the Basic Industries sector. With our almost 50 years of experience, we are able to realistically estimate the opportunities and risks of the market and provide optimal financing solutions.

"BEFORE MAKING A COMMITMENT, WE VET THE PROJECT'S ENVIRONMENTAL IMPACT AND ENSURE THAT IT COMPLIES WITH HIGH INTERNATIONAL STANDARDS".

Holger Apel, Senior Vice President Basic Industries

SAUDI KAYAN – ONE OF THE LARGEST PETROCHEMICAL COMPLEXES IN THE WORLD

A giant petrochemical complex is being built on the coast of Saudi Arabia: a total of 14 plants worth USD 10 billion. More than 25 different substances from the entire value chain will be produced here from mid-2010. SABIC Group is applying European technology and systems in the construction of Saudi Kayan. KfW IPEX-Bank is participating in the financing with USD 375 million.

HEALTHY FINANCING MIX

Dr Axel Radü, Senior Vice President Manufacturing Industries, Retail, Health "Our financing palette ranges from the new production line of a medium-sized company worth EUR 10 million to the major overseas investment of a DAX company".

PLANT EXPANSION FOR VW

With its Pacheco and Cordoba production plants, VW Argentina is an important part of VW's global production network. For Argentina, the company with its approximately 5,600 employees is also an important employer. The successful gear unit plant in Cordoba had to practically double its production capacity because of the good order situation. After having financed the original plant construction project in 2001, KfW IPEX-Bank financed the required expansion with an export finance package worth EUR 50 million with an eight-year term in 2008. Around 420 new jobs were created.

Exports, investments in new production plants, the takeover of companies at home and abroad – KfW IPEX-Bank supports companies in manufacturing, retail and health care with individually combined financing packages. A strength of the specialist financiers from Frankfurt am Main.

KfW IPEX-Bank transactions include projects of car manufacturers and automotive suppliers that are mainly based in Germany or Western Europe. We typically finance expansion investments or company mergers for those corporations. We concentrate above all on established, European car manufacturers and Tier 1 suppliers with a strong market position and technological base. For example, in 2008 we developed a customised movable goods leasing finance package for a German commercial vehicle manufacturer. It safeguards a significant part of its European sales and provides clear competitive advantages.

Our customers have also been affected by the downward turn of the automotive industry's economic cycle since the end of the year. Due to their stable financial structures and technological leadership we assume that our customers will emerge from the expected shakeout in the market stronger than before.

When it comes to commerce, KfW IPEX-Bank primarily supports large companies in the business of food retailing. For example, in 2008, we financed a package of six buildings (supermarkets and production facilities for bread and meat) for a German retailer as part of a real estate leasing transaction. We also accompany the cross-border expansion of German and European retailers.

German food retailers have coped well with the downturn in the economic cycle until now because, as international comparisons show, consumer demand has generally remained relatively stable in Germany and demand for basic consumables is relatively constant.

Thanks to its know-how in the industry, KfW IPEX-Bank is well positioned to design customised, individual financing solutions for customers even in these economically difficult times.

ABOVE THE CLOUDS

KfW IPEX-Bank has been active as one of the largest aviation financiers worldwide for more than 30 years. We develop customised financing for airlines and leasing companies.

Aviation is a growth sector. The large manufacturers assume that a total of more than 25,000 new aircraft will be required over the next 20 years. The future financing requirements will be correspondingly high – an attractive business opportunity for KfW IPEX-Bank's Aviation team.

"AVIATION IS A GROWTH SECTOR THAT WILL ALSO PROVIDE US WITH OUTSTANDING BUSINESS OPPORTUNITIES IN THE YEARS TO COME".

Michael Nosbüsch, Senior Vice President Aviation

KfW IPEX-Bank is active in all important aviation markets throughout the world. Our customers include passenger, cargo and charter airlines, leasing companies and tour operators as well as aircraft manufacturers and suppliers.

In addition to traditional financing of new aircraft, we are also committed to financing large pools of used aircraft. Based on our proven expertise, we are also in a position to assume residual value risks. Classic corporate finance and guarantees form part of our product range. We have also built up a vast amount of knowledge and experience in the specialised area of financing engine pools over the past few years.

The collaboration with our customers is based on mutual trust that has been developed over many years, in some cases decades. That is the best prerequisite for developing innovative, long-term financing solutions together.

OUTSTANDING BUSINESS OPPORTUNITIES

In April 2008, KfW IPEX-Bank together with three other European banks were mandated as equal joint lead arrangers and underwriters by the US leasing company Aircastle to provide refinancing for a portfolio containing 28 aircraft with a volume of almost USD 800 million.

FINANCING WITH ENERGY

Thermal and renewable energy, drinking water, sewage and waste-to-energy projects – KfW IPEX-Bank is a globally recognised financing specialist in an extremely dynamic market.

Buzzwords like climate protection, renewable energy, emissions reductions or water shortage have deeply penetrated our consciousness. Not just in Germany and Europe, but worldwide.

At the same time, the developing countries are catching up with regard to consumption – which

"WORLDWIDE, KFW IPEX-BANK HAS AN OUTSTANDING REPUTATION AS AN QUALIFIED SPECIALIST FINANCIER FOR ENERGY AND ENVIRONMENTAL PROJECTS".

Andreas Ufer, Senior Vice President Power, Renewables and Water

also means increased demand for energy and clean drinking water. In its current study "World Energy Outlook 2008", the IEA forecasts that global energy demand will rise by more than 45% by 2030.

The consequences for the energy sector are far-reaching. Companies are coming up with new ways of utilising the traditional energy resources of gas, oil and coal. Existing power plants are being upgraded to function even more efficiently in the future. New plants are being built to generate electricity from alternative energy sources such as wind, solar, biogas or waste. Energy-efficient, green technology is in demand and European, especially German, technology and plant engineering are playing a leading role.

KfW IPEX-Bank supports the global projects of its German and European customers and helps to maintain and enhance their market leadership in technology for energy-efficient and renewable energy sources, as well as in the water and waste-to-energy area.

To accomplish this, we have developed a palette of flexible financing solutions that fulfil all requirements. For example, we arrange complex project financing for energy-efficient thermal power plants or ultra-modern drinking water treatment plants and structure and provide advice on onshore and offshore wind projects.

POWER FROM THE SUN

In the Spanish province of Zamora, KfW IPEX-Bank structured the project financing of two photovoltaic plants equipped with proven German technology for solar modules and polycrystalline silicon cells. The 12 ha. solar farm achieves a total output of 5 MW and harnesses around 8 million KWh of electricity each year. This is sufficient energy to supply more than 3,500 households with electricity.

RIGHT ON TRACK

For more than 10 years, KfW IPEX-Bank has been one of the world's leading specialists in rail and road project finance. Experience and a profound knowledge of the sector are prerequisites for successfully financing complex transport projects.

Its many years of expertise enable KfW IPEX-Bank to provide tailor-made financing for a wide variety of customers, ranging from:

- Exporters to investors
- Public transport companies to private railway companies
- Road developers to motorway operators

Above and beyond the classic credit products, we have acquired special know-how of asset and project finance. Due to increased competitiveness in the rail sector and the ecological advantages of rail transport, this sector is experiencing a renaissance that creates rising demand for financing in many countries. KfW IPEX-Bank provides financing for new railcars and locomotives as well as for passenger trains, thus covering a broad range of railway assets.

In the road sector, KfW IPEX-Bank has been one of the pioneers in developing public-private partnerships (PPP) in Germany as well as in Eastern Europe. This model has proven itself throughout the past few years and has seen positive growth. Our customers benefit from our long-standing experience.

Wolfgang Reuß, Senior Vice President Rail and Road

"KfW IPEX-Bank is in the best position to meet the increasing demand for financing rolling stock with customised concepts".

RAILPOOL – THE FIRST FULL-SERVICE PROVIDER IN THE RAIL SECTOR

The expected further liberalisation and privatisation of the European railways will lead to more growth in demand for rolling stock, especially by private railway operators. In anticipation of this, KfW IPEX-Bank and HSH Nordbank established Railpool GmbH in summer 2008. This new asset manager leases freight locomotives and passenger trains to railway operators.

COMMUNICATION AROUND THE WORLD

Daily newspapers, television, mobile telephones and Internet access are all taken for granted in Western Europe. Further growth in this area will therefore emanate primarily from developing and emerging markets.

In developing and emerging countries, there is not yet complete access to television, telephone and newspapers. In India, for example, only one in four people possess a mobile telephone. The situation is changing rapidly, however. In 2008 alone, the Indian network operators acquired over 25 million new customers each quarter, equivalent to a growth rate of 10%.

The boom is also apparent in many other Asian, Latin American and African countries. There, mobile providers benefit from both a high population density and rising incomes. By 2013 worldwide revenues in the telecommunications industry are expected to grow twice as quickly as the global economy.

In such a diverse sector, KfW IPEX-Bank likewise provides financing solutions to a broad range of customers and projects, including

- State-owned and private telephone companies,
- German and European suppliers ,
- Satellite and cable operators,
- Newspaper and publishing houses,
- Manufacturers of printing machines.

For all our customers worldwide, KfW IPEX-Bank provides customised financing solutions in a dynamic and innovative market segment. Our focus is on supporting German and European companies with structuring project and export finance. Exciting projects are awaiting, especially in developing and emerging markets.

"TELECOMMUNICATIONS DELIVERS AN IMPORTANT CONTRIBUTION TO ECONOMIC GROWTH, ESPECIALLY IN EMERGING COUNTRIES. AS WITH WATER AND ENERGY, IT IS ONE OF THE DRIVING FORCES BEHIND SOCIO-ECONOMIC PROGRESS".

Wolfgang Kassel, Senior Vice President Telecommunications and Media

BUILDER-OWNERS AND FINANCIERS ARE PULLING IN THE SAME DIRECTION

KfW IPEX-Bank provides capital and expertise to customers with infrastructure projects at home and abroad. We finance projects primarily in Europe, but also in Asia and Latin America.

Infrastructure project finance is taking innovative paths – and KfW IPEX-Bank is at its side.

"FINANCING PARTNERS ARE THERE TO DEFLECT RISK FROM THE PUBLIC SECTOR".

Dr Wolfgang Richter, Senior Vice President Ports, Airports, Real Estate, Construction Industry/PPP

As part of public-private partnership project financing, we support the increasing participation of private capital in public infrastructure projects such as schools or administrative buildings. Due to the long-term nature of risk assumption, not only the party ordering the infrastructure but also we are interested in the completion of the property and in ensuring it remains in good condition in the long term. This incentive structure makes KfW IPEX-Bank an ideal partner of the public sector.

In the medium term, we expect continued strong growth for airports and seaports. The transport volume on the seas of the world has risen much faster than the national product. The prospects in international air traffic are similarly good. The largest aircraft manufacturers Airbus and Boeing both reckon that the global, long-term annual growth in air traffic will be around 5 percent. Growth will have to be just as rapid on the ground as on the water and above the clouds. Because ships need ports and aircraft need runways – and their respective investors need sufficient financing. KfW IPEX-Bank considers itself well positioned in these markets.

In office and commercial real estate financing, our experience in financing large assets combined with our project financing expertise makes us an optimal choice. We participate in the selected financing of high quality property in good and very good locations in major cities throughout Europe.

DELHI AIRPORT EXPANSION

KfW IPEX-Bank is participating in the financing of the Indira Gandhi International Airport expansion in Delhi with a project volume of around USD 1.8 billion. The bank is supporting German Fraport AG, which is sponsoring the project with a 10% share. A runway is being built and the terminal capacity expanded at the second-largest airport in India.

SAFEGUARDING COMPANIES' CONTINUITY

Complex financing projects require product specialists. When it comes to leveraged finance, mezzanine and equity, KfW IPEX-Bank is active cross-industry. Our customers benefit from product and industry know-how at the same time.

With respect to leveraged buy-out financing, KfW IPEX-Bank follows a product-focused, cross-industry approach that also includes transactions with an infrastructure background. Here we provide professional support to an important customer group for all their needs – from a single source.

The commitment of financial investors can make a significant contribution to the preservation and development of a company, for example one that is faced with an unclear successor situation or is being spun off from a larger corporation. KfW IPEX-Bank supports these types of transactions via the responsible provision of financial resources – also taking into account additional financing requirements as part of the respective company's growth strategy. That also applies to the support of corporate customers for their strategic acquisitions.

In addition, we provide mezzanine financing with an equity-like character. These instruments are tailor-made to ease or improve balance sheet ratios and to expand our customer's room to manoeuvre for corporate or project financing.

In selected cases, we also invest equity in funds which in turn make investments in projects. In doing so, we concentrate on industries in which KfW IPEX-Bank has been active for a long time. Together with our colleagues in the specific business sectors, our experts develop special equity solutions for our customers.

"OUR BUSINESS SECTOR SUPPLEMENTS THE INDUSTRY EXPERTISE WITHIN KFW IPEX-BANK WITH SPECIAL KNOWLEDGE OF CUSTOMISED FINANCIAL PRODUCTS. OUR LONG-TERM FINANCING APPROACHES CONTRIBUTE TO SAFEGUARDING COMPANIES AND THEIR FURTHER DEVELOPMENT".

Gisela von Krosigk, Senior Vice President Leveraged Finance, Mezzanine, Equity

SOMETIMES YOU NEED TO THINK SHORT-TERM

In trade, the ability to react quickly to changes in the markets is a major success factor. Quick reactions often require additional liquidity in a hurry. At the same time, capital requirements should not place excessive strain on a company.

To complete its range of products , KfW IPEX-Bank provides its customers with flexible short- and medium-term financing solutions that enhance its financing partners' ability to act and react. In this context, we assume the payment and country risks of trade finance instruments, which sets the stage for the implementation of international transactions. We promote trust between contracting partners who may still be unknown to each other and facilitate the movement of goods and services across borders.

Important financing products in this business sector are:

- Purchases of bank receivables without recourse
- Risk sub-participation in bank and corporate risk
- Short-term financing of trading or production of commodities and raw materials
- Individual financing solutions for financial institutions with and without ECA coverage

We have collaborated closely with our banking partners since our business sector was established and are available here, for example, as a reliable partner for the assumption of risk to support German foreign trade. Thanks to our many years as a member of the International Chamber of Commerce (ICC) and International Forfaiting Association (IFA), we are considered as a well-known, trustworthy and flexible market player.

Around 50 years of experience in financing projects in emerging markets, competent teams of experts and product specialists, as well as short decision-making processes have led the customers of the Financial Institutions and Trade & Commodity Finance sector to value KfW IPEX-Bank as a reliable partner for tailor-made financing solutions.

Bernd Sooth, First Vice President Financial Institutions and Trade & Commodity Finance "KfW IPEX-Bank has already established itself in the short-term Trade & Commodity Finance business area as a reliable, competent partner".

GHANA COCOA BOARD

KfW IPEX-Bank acted as senior lead arranger in the renowned and very successful Ghana Cocoa Board receivables-backed trade finance facility in 2008.

DERIVATIVES AND LOAN SYNDICATIONS – SERVICES ABOVE AND BEYOND GRANTING LOANS

With its special experience and knowledge of financial derivatives and loan syndications, KfW IPEX-Bank provides its customers with products and services that go above and beyond simply granting loans.

DERIVATIVES: Exchange rate and interest rate fluctuations in the international markets are an important factor in the financing of cross-border and cross-currency transactions. Marked fluctuations make it more difficult for internationally active companies to plan. Our customers use derivatives to limit and manage the risks associated with their investment and financing decisions. That allows them to actively manage interest rate and currency exposures – especially when a loan is drawn. We assist our customers with the identification, the measurement and with recommendations on how to control these types of interest rate and currency risks. We help them develop and implement hedging strategies and, independently of any underlying loan transaction, offer the financial derivatives for active interest rate and currency management.

"WE REACT FLEXIBLY TO INDIVIDUAL NEEDS AND DEVELOP SITUATION-ORIENTATED SOLUTIONS FOR OUR CUSTOMERS".

Matthias Zorn, Vice President Treasury

LOAN SYNDICATIONS: Syndications represent the hinge between the customer on the one hand and the banking market on the other. With its extensive market knowledge in the area of syndications and broad contacts in the global banking markets, an experienced team of KfW IPEX-Bank experts supports its own origination and structuring teams when liaising with customers. Together with other internationally active banks, our syndication professionals ultimately ensure sufficient liquidity, often setting the stage for the realisation of large transactions in the process. Together with our partner banks, we expand the financing options for our customers in an international context.

Thomas Alberghina, First Vice President Syndication "The prerequisites for a successful syndication are pricing in line with the market and an optimal credit structure that matches the customers' interests with those of national and international bank investors".

MAN ROLAND delivers printing machines to a Brazilian publishing house. Financed by KfW.

RIGHT DOWN TO THE LAST DETAIL

INTERNATIONAL FINANCING PRODUCTS REQUIRE SPECIALISED KNOWLEDGE. THAT IS WHY KFW IPEX-BANK EMPLOYS FINANCING SPECIALISTS IN ADDITION TO INDUSTRY EXPERTS. WE COMBINE SPECIFIC PRODUCTS IN AN INDIVIDUAL STRUCTURE WHOSE PARTS WORK HAND IN HAND.

CUSTOMISED FINANCING SOLUTIONS – CUSTOM-FIT COLLATERAL STRUCTURES

MAKING THE RIGHT DECISIONS EVEN WHEN THE COMPETITION IS FIERCE – THAT IS THE ENTREPRENEURIAL ABILITY TO ACT. BE IT TO OPEN MARKET AREAS, ESTABLISH OR ACQUIRE COMPANIES OR TO DEVELOP AND LAUNCH NEW PRODUCTS.

For all of its customers, KfW IPEX-Bank develops a financing package that corresponds exactly to their respective, specific requirements. To do that, we employ the entire spectrum of instruments that are currently available in the credit market. At the same time, we develop new solutions and attempt to optimise the existing ones. The palette of financing products ranges from classic, tied export finance and international project finance to differentiated financing models in a variety of currencies. For the financing of international trade, we provide the classic instruments of trade financing and structured trade financing. Their individual, customised collateral structure is an important feature of KfW IPEX-Bank's financing offers.

THESE COLLATERAL STRUCTURES INCLUDE:

- Export credit agencies (ECA)
- Investment guarantees of the Federal Republic
- Stabilisation shields of supranational institutions (IFI)
- Individual offshore structure with risk partners outside the investment country
- Classic collateral structures in domestic transactions

With our investment financing, we provide our customers the financial room to manoeuvre they require for developing new entrepreneurial potential as quickly as possible. We also support public and private infrastructure projects with tailored financing solutions.

"TOGETHER WITH OUR CUSTOMERS, WE DEVELOP A COHERENT OVERALL SOLUTION IN WHICH WE OPTIMALLY MATCH VARIOUS PRODUCTS AND INSTRUMENTS WHILE TAKING THE INDUSTRY ENVIRONMENT INTO CONSIDERATION AT THE SAME TIME".

Matthias Wietbrock, Senior Vice President Financial Products Advisory

EXPORT FINANCE: GROWTH KNOWS NO NATIONAL BORDERS

GERMAN AND EUROPEAN COMPANIES ARE IN A STRONG POSITION WHEN IT COMES TO THE EXPORT OF GOODS AND SERVICES. BUT THE COMPETITION IS HEATING UP. KFW IPEX-BANK SUPPORTS ITS CUSTOMERS WITH INTELLIGENT FINANCING SOLUTIONS.

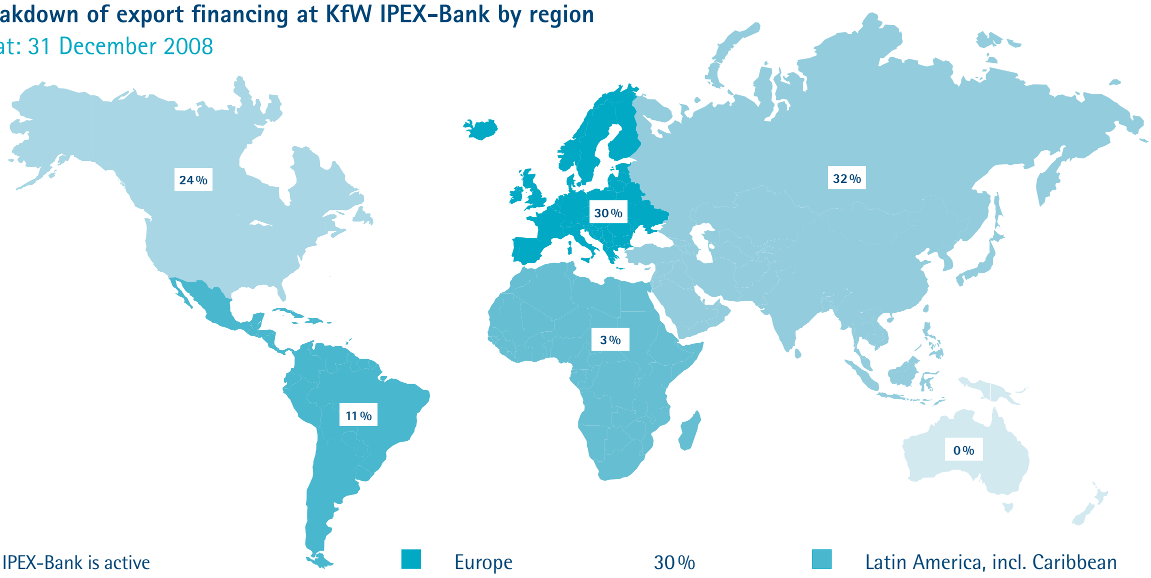
Using export finance, German and European companies can maintain their international market position or tap new markets. Companies have a comprehensive product spectrum available to them: from long-term, tied financial credits with and without ECA coverage to loans under framework contracts.

For more than 50 years, KfW IPEX-Bank has financed the deliveries and services of German companies and, increasingly, those of other European countries for international markets. As required, these export loans are guaranteed by state export credit insurers, or export credit agencies (ECA). KfW IPEX-Bank has ties to many European and non-European ECAs as a result of decades of collaboration. These close contacts also enable the single-source financing of export transactions based on deliveries from several countries.

SELECTED INDUSTRY FOCUS OF EXPORT FINANCING:

- Energy and environment, transport infrastructure, telecommunications
- Shipping, aviation
- Food
- Raw materials production
- Petrochemicals
- Pulp and paper
- Steel

Breakdown of export financing at KfW IPEX-Bank by region
As at: 31 December 2008



KfW IPEX-Bank is active in export finance around the globe.

Europe	30 %	Latin America, incl. Caribbean	11 %
Africa	3 %	Asia	32 %
North America	24 %	Australia and Oceania	0 %

PROJECT FINANCE: REALISING SOPHISTICATED PLANS

COMPANY'S DEMAND FOR INDIVIDUAL FINANCING SOLUTIONS IS GROWING. IT GOES HAND IN HAND WITH THE DEMAND FOR AN EXPERIENCED, FLEXIBLE BANK.

In project finance, KfW IPEX-Bank grants loans for certain investment projects. A project company is established especially to manage the project realisation and operations.

To service the principal and interest payments, the cash flow of the project is the main point of reference for the financing structure.

As a rule, project finance is secured by the assignment of all rights under the agreements of the project company with third parties to KfW IPEX-Bank. The assignment of receivables from offtake agreements or insurance claims is a typical example. Mortgages and transfers of assets by way of security can serve as security in rem.

For larger public infrastructure projects, such as those in the rail and road, airport and seaport, energy supply and public building construction areas, public-private partnerships (PPP) or private finance initiatives (PFI) are the logical choice. In those models, private investors or operators and the public sector work together closely on the project.

Before a loan is granted, KfW IPEX-Bank always vets the technical and economic feasibility of a project, the collateral structure and the approvals of the responsible authorities. A further prerequisite for granting a loan is compliance with international environmental and social standards.

SELECTED INDUSTRY FOCUS OF PROJECT FINANCING:

- Raw materials production and processing
- Steel, pulp, petrochemicals
- Telecommunications, Internet, satellites, undersea cables
- Rail and road, bridges and tunnels
- Thermal and renewable energy, power transmission and distribution
- Water supply, sewage and waste disposal
- Airports, seaports, building construction

ASSET FINANCE: MAKING BIG THINGS MOVE

ASSETS HAVE TO PAY FOR THEMSELVES. NEED-BASED FINANCING IS THE FIRST STEP IN THAT DIRECTION. KFW IPEX-BANK'S CUSTOMISED FINANCING SOLUTIONS ACCOMPANY CUSTOMERS ON THEIR PATH TO SUCCESS.

The goal of asset finance is to finance the production or operation of a specific asset. The loan is typically repaid with income from leasing or rental agreements to a specially established operator company.

KfW IPEX-Bank's financing solutions stand out due to their intelligent combination of different products and instruments. They include the financing of engine pools in addition to classic aircraft, rolling stock, ship finance and leasing models. We grant loans for financing leases as part of new or replacement investments in capital goods. We also refinance leasing companies that lease mobile goods such as aircraft, railcars and ships as part of operating leases. In this highly dynamic product area, KfW IPEX-Bank relies on long-term partnerships with specialists who have international experience. In aviation and ship finance, we have been counted among the major providers in Europe for decades.

SELECTED INDUSTRY FOCUS OF ASSET FINANCING:

- National passenger, cargo and charter airlines, aircraft manufacturers and suppliers
- Container, freight and cruise ships, RoRo vessels, ferries, product and gas tankers
- Rail and road, locomotives, commuter trains

INSIGHTS

WE ARE SATISFIED WITH OUR FIRST YEAR OF LEGAL INDEPENDENCE.

The Aker MTW shipyard in Wismar (today Wadan Yard MTW GmbH) builds an AIDA cruise ship. Launch 2002.

BUSINESS DEVELOPMENT 2008

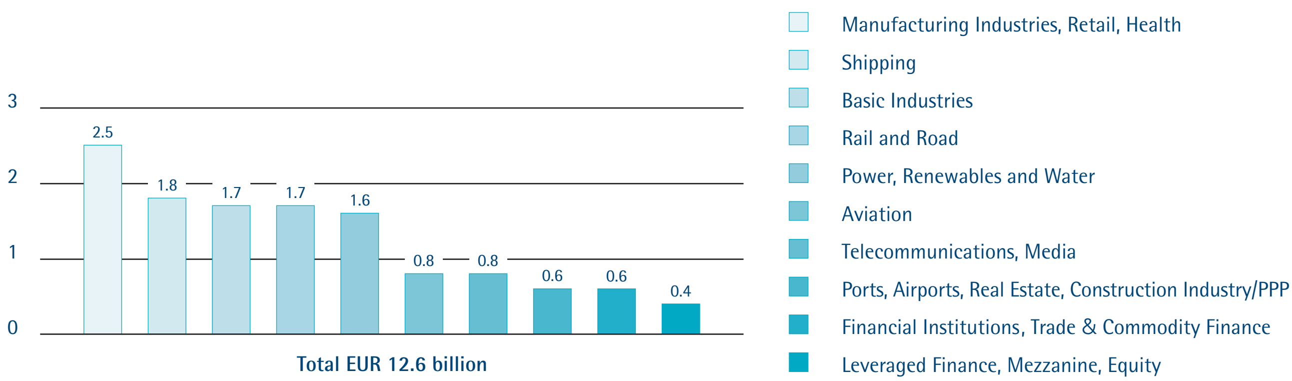
SIGNIFICANT GROWTH IN NEW BUSINESS – STRONG OPERATIVE RESULT

The market environment for international project and export finance was especially tense in the second half of 2008 and heavily impacted by the turbulence in the international financial markets. Despite – or perhaps because of – the difficult economic situation, customer demand for classic bank-type financial instruments remained lively. Within these overall conditions, KfW IPEX-Bank plays an important role in the market and lives up to its claim of being a reliable financing partner. We can look back on an operationally successful first year of legal independence. The total volume of new business was EUR 17.6 billion in 2008. Of that volume, EUR 12.6 billion was allocated to KfW IPEX-Bank financing on its own account, and EUR 5 billion to the transactions executed for KfW on a trust basis.

OUR BUSINESS ACTIVITIES FOLLOW CUSTOMER MARKET DEVELOPMENT

In 2008, the Road and Rail, Shipping, Manufacturing and Basic Industries and Power business sectors made especially high contributions to the total volume of financing. These sectors still benefited from generally good growth in their markets for the greater part of the year. The obvious slowdown in economic growth that occurred in almost all of the industrial countries in the fourth quarter of 2008 had no immediate impact on most of our customers. Due to the nature of industries such as shipbuilding and aircraft construction, basic industries and energy management, planning and production cycles are much longer than in industries more directly related to consumption. We expect significantly more difficult general conditions for those business sectors in 2009, although they have been able to rely on stable growth in their markets until now.

New commitments according to business sector
EUR in billions



The core business of KfW IPEX-Bank is extending medium- and long-term loans. However, in the interest of our customers we have expanded our product portfolio by adding trade finance. The department we established to handle this business finances cross-sectoral, international trade transactions and projects for corporate customers who are active in export and import business.

STRATEGIC INVESTMENTS

Establishment of the Railpool GmbH leasing company

We have also fine-tuned our product profile in leasing transactions and established the Railpool GmbH leasing company, an asset manager for railcars, jointly with HSH Nordbank in July 2008. As a joint venture with two 50-percent shares, the aim of the company is to establish itself as an advanced standard in the European leasing market for rail vehicles through innovative, quick solutions.

With knowledge and experience in the rail industry and its financing requirements, Railpool has taken on the job of being a reliable partner to private train operators in the areas of freight and passenger traffic. Railpool enables its customers to concentrate on their core business, namely, rail transport. Railpool provides the following services throughout Europe:

- Leasing locomotives with or without full service package
- "Operate lease" solutions for commuter rail operators
- Purchase/takeover of vehicles/fleets and leasing to the seller with or without full service package

The "Movesta" joint venture provides a broad spectrum of financial services.

Our strategic participation in Movesta Lease and Finance GmbH enables KfW IPEX-Bank to offer customers comprehensive solutions for structuring new investments and investments in fixed and current assets. Through Movesta we provide equity to project development or property companies in the German real estate market, primarily in the office and trade asset classes. Investors and proprietors can count on Movesta as an experienced partner for project development or further investment, as well as investment outsourcing and contracting models. Investors and entrepreneurs alike benefit from the Movesta network in the German real estate market, as well as its know-how in financing and implementing project development. In the markets for large assets – aviation, shipping and rail and road – Movesta provides customised leasing solutions and other structured financing.

BREAKDOWN OF NEW BUSINESS BY REGION

We support our customers and their plans across the globe. That is why our transactions target worldwide growth markets that are important for the German and European economies. In 2008, Germany and the rest of Europe each accounted for around one-third of our new loan portfolio. Together, they are a major focus. From a risk management point of view, this balanced, regional distribution makes our business stable.

Breakdown of new business by region

Region	Share in %
Germany	32
Europe (excluding Germany)	42
Other regions	26
Total	100

Transport projects such as the financing of streetcars and commuter trains represent the highest share of our **German business**, with new commitments adding up to EUR 4.1 billion. Exposures for manufacturing industries and trade are in second place. There, we support the construction of supermarkets, for example.

Financing in **Europe** (excluding Germany) features a new commitment volume of EUR 5.2 billion. Rail and road projects, including the financing of freight cars in France, made the greatest contribution to the result. We were also very active in Basic Industries, Shipping and Power with the financing of Greek ferries and Spanish solar power stations, among others.

In the **non-European regions** – with new commitments of EUR 3.3 billion – key activities included transport projects such as the financing of European suppliers for a metro line in São Paulo, Brazil as well as energy projects.

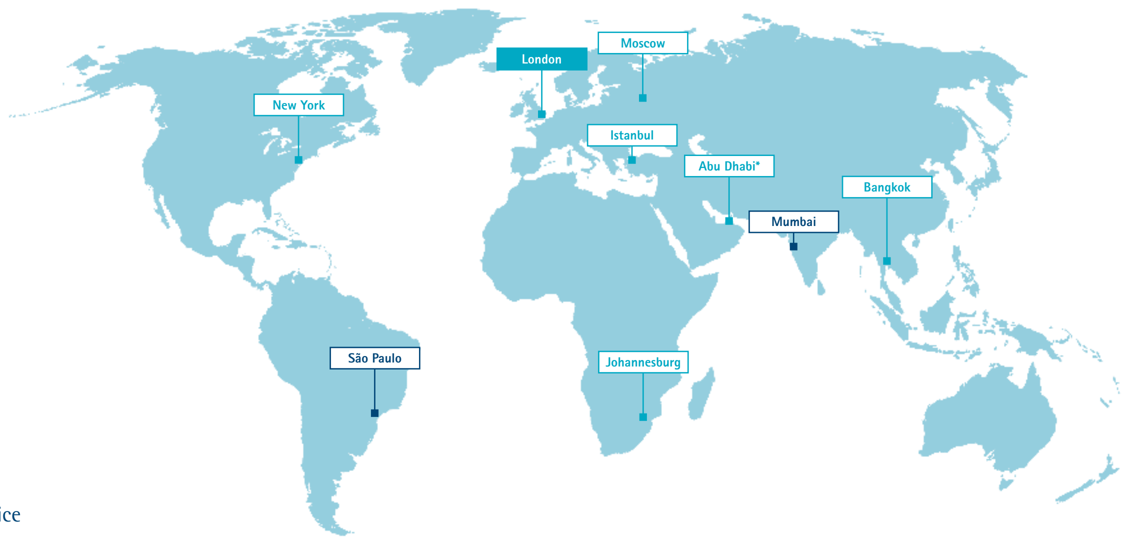
TARGETED INTERNATIONAL PRESENCE

As an international project and export financier, it is vital for KfW IPEX-Bank to be represented in its customers' local target markets. That is why we have developed a network in the overseas sales markets that are important for German and European industry in the past few years.

A major step in 2008 was the development of our London location into a full branch office. This underscored the high significance London has for us as one of the most important financial centres in the world. With our extensive market knowledge, specific financing expertise and our syndication desk, we cover the Corporate, Leveraged Finance and Infrastructure Finance areas especially well there, with a focus on the UK and Ireland.

In addition, we expanded the network of our overseas locations by adding an office in Johannesburg in 2008. We are also establishing an office in Abu Dhabi, which is scheduled to open in 2009.

KfW IPEX-Bank locations outside Germany
As at: 31 December 2008



- Branch office
- Office (*under development)
- KfW representative offices to be successively transferred to KfW IPEX-Bank GmbH

RESPONSIBILITY FOR ENVIRONMENTAL AND SOCIALLY SOUND COMMITMENTS

Since 1 March 2008, we have been following the Equator Principles.

KfW IPEX-Bank continues to meet its responsibility for environmental and socially sound commitments. We adopted the Equator Principles on 1 March 2008, but have abided by our own stringent environmental and social guidelines containing clear rules for our operational activities since 2000. They have been adjusted several times to reflect current developments in the international discussion on corporate social responsibility.

EQUATOR PRINCIPLES

The Equator Principles are the IFC's framework for guiding how a bank manages the environmental and social risks associated with the projects it finances. They enable the categorisation of a project according to high, medium or low environmental and social impact. The possible environmental and social effects of projects in the high or medium risk category are subject to a mandatory assessment. In the event of a negative impact, the bank is obligated to actively encourage investors or operators to initiate compensatory measures. For KfW IPEX-Bank, compliance with the Equator Principles was not a new challenge. We had already been applying them in the form of our own environmental and social guidelines.

OUR CONTRIBUTION TO SUSTAINABLE DEVELOPMENT

KfW IPEX-Bank is especially committed to projects that contribute to sustainable development. Of the total commitment in 2008, loans in the amount of EUR 2.1 billion were granted for projects with sustainable aims. The main focus of those loans – which added up to EUR 1.4 billion – was investments in rail projects. Around EUR 0.6 billion was committed to renewable energy products, including several wind power projects and solar energy stations at home and abroad. A sum of EUR 0.1 billion was used to finance environmentally friendly sewage and waste projects.

"KFW IPEX-BANK ONLY PARTICIPATES IN THE FINANCING OF PROJECTS THAT COMPLY WITH INTERNATIONALLY RECOGNISED ENVIRONMENTAL AND SOCIAL STANDARDS. WE DO NOT FINANCE PROJECTS THAT ENTAIL AN UNACCEPTABLE ENVIRONMENTAL IMPACT OR CAUSE MORE SOCIAL DISSERVICE THAN BENEFIT".

Prof Dr Werner Fassing, Sustainability Officer

THE ABCS OF ENVIRONMENTAL PROTECTION

Loan applications are classified into three categories.

All loan applications are assigned to one of three categories based on the environmental and social aspects of the project to be financed. Projects in categories A and B are those which may entail a significant, partially irreversible and partially technologically controllable environmental and social impact. These projects are vetted by the technological and sustainability officers of KfW. Projects only have to be vetted if they are to be implemented in a non-EU country or another OECD country that does not have an established environmental protection law with practical application or a stable social order.

In 2008, we assigned 16 projects to category A and 14 projects to category B. They were primarily raw materials projects, thermal power plants and several transport infrastructure projects. Internationally accepted environmental and social standards were complied with in every case that was subjected to in-depth assessment.

In general, aircraft, ships, telecommunications equipment and standard products in the investment goods industries that meet the generally accepted standards are in category C. Those projects do not require an in-depth assessment.

PERSONNEL DEVELOPMENT 2008

SUCCESSFUL PERSONNEL INCREASE

When KfW IPEX-Bank started operating on 1 January 2008, 441 employees from KfW went to KfW IPEX-Bank as part of a transfer of operations. The basis of the transfer was a works agreement on personnel transition which contains all of the labour law and personnel policy issues that were agreed upon with the KfW works council. Almost 100 % of the employees opted to transfer over, ensuring our ability to continue to successfully act in the international financial market with our most important capital: our employees.

KfW IPEX-Bank needs well trained, motivated employees who impress our customers with their expertise, candour, service orientation and professionalism. Human resources work has made an important contribution to that, as indicated by a renewed rise in the number of employees in 2008. The increase was implemented as part of a quantitative and qualitative personnel plan. At the end of 2008, KfW IPEX-Bank employed around 490 employees, marking an increase of 14 % against the previous year.

"THE CLOSE COLLABORATION AMONG OUR EMPLOYEES, ABOVE AND BEYOND VARIOUS TEAMS AND AREAS, IS ONE OF THE STRENGTHS OF KFW IPEX-BANK. WE ALWAYS KEEP OUR CUSTOMERS AND THEIR REQUIREMENTS IN MIND. TEAMWORK IS A FACT OF LIFE HERE".

Yvonne Harth, First Vice President Human Resources

A new employee profile, that of project assistant, has been created and recruited on the employment market. More external applicants without academic degrees will be introduced to the exciting business of international project and export finance and become motivated by taking on assistant positions on a project basis – with success.

SUCCESSFUL INTEGRATION OF NEW COLLEAGUES

KfW IPEX-Bank is a very attractive employer for many applicants. We benefit from our company's positive presence in the financial and capital market, above all from the internationality and multiplicity of tasks that KfW IPEX-Bank offers.

The developments in demography have made the market for applicants tight. In view of that, the successful recruitment of new employees is a central focus of our human resources work. The number of university graduates and people with experience employed by KfW IPEX-Bank has increased against the previous year yet again. Acquiring those new employees, successfully introducing them to work in the company and motivating them for the long term are important facets of our human resources work.

The number of employees increased against the previous year.

Supported by management, colleagues and our internal and external continuing education programme, our systematic transition period is designed to introduce new employees to KfW IPEX-Bank and to forge close links with them.

In 2008, KfW IPEX-Bank participated in employer studies for the first time. We plan to continue upgrading the professionalism of our personnel marketing and to thus maintain our position on the tight employment market in 2009.

BUILDING A POOL OF SKILLED EMPLOYEES

Trainee programmes: "International Project and Export Finance" and "Receivables Management"

In 2008, we were again able to acquire many new employees who sought to apply their qualifications in the international finance sector after graduating from university. We were able to recruit 24 trainees for our two training programmes "International Project and Export Finance" and "Receivables Management". During the 15-month programmes, the trainees have the opportunity to contribute their ideas and specialised knowledge, and develop on an individual basis. In targeted on- and off-the-job training, they become familiar with a variety of tasks, projects and procedures of decision-making. They acquire specific bank and product knowledge that will qualify them to work as project managers later on.

Through advertisements, trade fairs, workshops with case studies and round tables, our university marketing programme puts us in contact with future graduates.

GLOBAL INCREASE IN EMPLOYEES

Mixture of local and seconded employees – a benefit for all those involved

As an internationally operating bank, we work all over the globe. In the past few years, we have opened up representative offices in the world's most important markets. Our Johannesburg office was opened in 2008. In addition, we transformed our London office into a branch in which we have been employing 12 people since the end of 2008.

The mixture of local and seconded employees in the London branch led to an animated exchange of experience and information – a benefit for all those involved.

All of our international locations are a central contact point for our local customers and an important connection from the field to our colleagues in Frankfurt, Germany. It is only by working together that we can enable our business to take flight.

DEVELOPMENT STEPS

Optimal exchange of human resources throughout the entire Group

Employee development is important to us, and KfW IPEX-Bank offers a variety of instruments and measures to support it. In addition to our comprehensive seminar programme, we conduct management/employee interviews for the purpose of development. We also offer coaching and an opportunity to take an analysis of potential toward obtaining a first position in management. Team-building measures and the opportunity for employee feedback to managers are also important instruments of personnel work.

Many of these measures require close collaboration between KfW IPEX-Bank and KfW Bankengruppe, promoting an optimal exchange of human resources throughout the entire Group.

KEY PERSONNEL FIGURES:

Number of employees:	490
Part-time employees:	approx. 11 %
Average age:	approx. 37 years
Female:	46 %
Male:	54 %
Women in management positions:	15 %
Number of severely disabled employees:	1.45 %

HUMAN RESOURCES INSTRUMENTS IN LINE WITH THE MARKET

With the transfer of employees from KfW to KfW IPEX-Bank, all of the existing agreements with the employee representatives have been transferred to the new company.

We have developed a success-based, performance-orientated system of remuneration based on target agreements and performance assessments. The new system of remuneration is characterised by market orientation and competitiveness. To maintain this, KfW IPEX-Bank will participate in an annual comparison of remuneration in the banking sector.

Beyond the agreement on the new system of remuneration, all additional social and ancillary benefits will be regularly checked for conformity with current market standards.

KfW IPEX-Bank works toward a work/life balance.

KfW IPEX-Bank continues to provide various options for reconciling work and family life. Part-time models and home office solutions will be supplemented by daycare for children, in the form of a kindergarten as well as a daycare centre. These measures help ensure that mothers and fathers can successfully be parents and employees at the same time.

KfW IPEX-Bank works toward a work/life balance. That enables us to take an important step forward in terms of corporate social responsibility and the self-actualisation of our employees.

CLOSE, CONSTRUCTIVE COOPERATION

Successful cooperation

Human resources work can only be successful when management and employees at all levels and in all areas work in close, constructive cooperation. We would like to thank the first works council elected at KfW IPEX-Bank and the representative of our severely disabled employees at this time. Above all, we would like to thank our employees, whose motivation and commitment made our first year as an independent bank a success.

MANAGEMENT REPORT OF KFW IPEX-BANK GMBH

GENERAL ECONOMIC CONDITIONS

The global economy was exposed to significant strain in 2008. Following years of strong expansion, production growth entered a cyclical downward trend. This development was exacerbated by various factors: for example, significant rises in the prices of commodities up to the middle of the year gave impetus to global inflation. In addition, some countries experienced corrections in property prices, which were at times significant. Both these factors significantly slowed global demand. The crisis that hit the financial markets, emanating from the USA, developed into an extraordinary burden on the global economy. The drop in asset values obliged banks all over the world to undertake write-downs, which threatened the very existence of some. The high level of uncertainty regarding valuations of risk-carrying securities put a burden on the interbank market, leading to virtual stagnation in some cases, and brought about significant rises in risk premiums in the money market. The concomitant restriction in refinancing possibilities increased the banks' risk of going bankrupt.

As 2008 continued, several banks collapsed or were taken over by other banks with government intervention. The stimulus packages launched by governments and central banks in many countries succeeded, by the end of the year, in preventing any further exacerbation or indeed a collapse of the financial system.

Over the course of the year, turbulence in the financial markets increasingly affected the real economy. Investment activities by companies and private domestic consumption were slowed both by declining asset values and a more restricted approach to lending. The significantly gloomier outlook in the real economy combined with restricted access to credit curbed investment readiness and accelerated the drop in prices on securities markets. This in turn led to the need for additional write-downs. As a result, the crisis in the financial markets and the recession in the real economy became self-perpetuating. In order to break out of this downward spiral, governments and central banks worldwide undertook measures to support financial service providers as well as the real economy.

Based on currently available data, global gross domestic product rose by just under 3.4 % in real terms in 2008. As a result, the high growth figures of previous years, which saw growth rates of more than 5 % in some cases, could no longer be achieved. Emerging and developing countries, led by China and India, achieved robust growth in 2008. However, they were also less dynamic than in previous years. During the course of the year, it became apparent that these countries were unable to decouple themselves from the economic slow-down occurring in highly developed economies, in particular the USA and the Euro area.

Initial calculations indicate that gross domestic product in Germany rose by 1.3 % during 2008. Germany achieved very significant growth in its real-terms gross domestic product during the first quarter, buoyed by lively export and investment activities as well as the effects of a mild winter. However, economic development weakened palpably as the year continued. The export economy increasingly suffered from the downturn in overseas sales markets. The consequences of the financial market crisis could also be felt in Germany. Some banks had to make very extensive write-downs. In September, the German Government launched a bail-out package for banks in order to avoid the systemic risk of bank collapse. This package included the recapitalisation of banks, the issue of guarantees as well as the assumption of risks. Furthermore, the European Central Bank provided extensive liquidity to banks.

DEVELOPMENT OF KFW IPEX-BANK GMBH

KfW IPEX-Bank GmbH (referred to below as KfW IPEX-Bank or the bank) began operating on 1 January 2008 according to schedule, conducting its business transactions as a legally independent, wholly owned subsidiary of KfW. KfW IPEX-Bank functions within KfW Bankengruppe and focuses on the business unit of international project and export finance. We have achieved a healthy level of new business amounting to EUR 12.6 billion, in spite of an international market situation that became very difficult through the course of the year. Furthermore, the initial ratings from 2007, namely AA– by Standard & Poor's and Aa3 by Moody's, were confirmed. As part of our international strategy, the former representative office in London was converted into a branch and a new representative office was opened in Johannesburg.

KfW IPEX-Bank has only been partially affected by the financial market crisis. Refinancing almost exclusively from KfW guaranteed that the bank had access to necessary liquidity at any time in order to be able to offer financing. However, the costs of this refinancing rose during the year, particularly in the fourth quarter following the insolvency of Lehman Brothers in the USA. The associated uncertainty both amongst other banks and customers concerning further trends in loan costs resulted in a decline in lending, particularly in the last quarter of the year 2008, which affected not only the market in general but also KfW IPEX-Bank.

KfW added equity in December, as part of the long-term concept for the legal separation of KfW IPEX-Bank. Together with the capitalisation strengthening measures planned for 2009, this will make the bank capable of maintaining a steady market presence and will therefore provide support to the statutory mandate of KfW, which is to finance projects in the interests of Germany and the community of European nations. For one, the capitalisation increases the possibilities for further new business. For another, it serves to ensure a commensurate level of equity, even given the expected downgradings of borrowers resulting from economic trends.

As far as the accompanied credit transactions were concerned, a trend was apparent towards a more bilateral, smaller business volume on a case-by-case basis because larger syndicate finance deals were cancelled or at least postponed due to the lack of bank partners.

We were not obliged to instigate any changes in business processes in response to the global financial market crisis. Back in the early part of 2008 – even before the financial market crisis came to a head – we initiated projects for examining internal credit processes as well as further developing our portfolio management. The results of these projects are planned to be implemented by summer 2009.

OVERVIEW OF THE NET ASSETS, FINANCIAL POSITION AND RESULTS OF OPERATIONS

As results of operations per 31 December 2008, KfW IPEX-Bank posted a volume of business (total assets, contingent liabilities and irrevocable loan commitments) amounting to EUR 63.7 billion, representing a rise of EUR 8.2 billion or 15 %. The strong growth is largely due to the high demand for finance during the past fiscal year. This meant the bank recorded a significant rise in loans and advances to banks and customers of EUR 7.8 billion or 49 % to EUR 24.0 billion as well as in guaranteed credits of EUR 1.2 billion (137 %) to EUR 2.1 billion. Irrevocable loan commitments, on the other hand, declined by EUR 1.4 billion (–14 %) to EUR 8.3 billion.

The total assets at the end of the year were EUR 53.3 billion, which is EUR 8.4 billion higher than on 31 December 2007. As well as the rise in disbursed loan business of EUR 7.8 billion (49 %) to EUR 24.0 billion, the securities portfolio was expanded by EUR 1.9 billion (95 %) to EUR 3.8 billion. In addition to own-account business, we administer assets held in trust amounting to EUR 25.3 billion. The principle items in this category are loans administered for KfW on a trust basis in the Export and Project Finance business unit. The decline was significantly lower than expected due to a positive new business trend.

During the 2008 fiscal year, the on-balance sheet equity was strengthened by EUR 350.0 million by an increase in subscribed capital, and therefore amounted to EUR 2.6 billion as per 31 December 2008.

The bank's regulatory capital totalled EUR 4.0 billion as per 31 December 2008. This resulted in a total capital ratio of 14.05 % and a tier 1 ratio of 9.32 %.

RESULT

The operating result of KfW IPEX-Bank before risk provisions and valuation amounts to EUR 240.3 million. Significant components of the result include net interest income (EUR 231.1 million) as well as net commission income (EUR 117.6 million). The administrative expense, comprising personnel expense of EUR 49.1 million and other administrative expenses including depreciation on property, plant and equipment of EUR 60.9 million, amounted to EUR 110.0 million. The trend in risk provisions is characterised by developments in financial markets as well as the overall slowdown in the economy. During the fiscal year, the total expenses by KfW IPEX-Bank for risk provisions and valuations amounted to EUR 230.4 million, of which EUR 137.9 million were assigned to risk provisions for lending business and EUR 92.5 million to valuations from investments in financial assets. The latter item principally concerns our securities portfolio that has been built up in order to guarantee liquidity. Overall, all recognisable risks were covered by commensurate risk provisions.

The operating result of KfW IPEX-Bank in 2008 amounted to EUR 9.9 million.

Following deduction of taxes on income, KfW IPEX-Bank posted net income for the year amounting to EUR 5.1 million. Upon adoption of the financial statements, this full amount is to be assigned to other retained earnings.

VOLUME OF LENDING FOR OWN ACCOUNT

The volume of lending (loans and advances including financial guarantees and irrevocable loan commitments) rose during the 2008 fiscal year by EUR 7.7 billion or 29 % to EUR 34.4 billion.

Loans for own account

	31 Dec. 2007	Disbursements	Repayments	Other additions/ disposals*	31. Dec. 2008
	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions
Shipping	3,600.3	1,946.1	802.4	194.8	4,938.8
Manufacturing Industries, Retail, Health	2,362.2	1,962.5	604.1	–252.6	3,468.0
Basic Industries	2,127.5	1,645.4	538.9	22.3	3,256.3
Rail and Road	2,015.0	1,061.4	272.8	–122.5	2,681.1
Power, Renewables and Water	1,596.9	1,345.7	185.1	–106.1	2,651.4
Aviation	1,086.7	866.8	130.8	55.2	1,877.9
Telecommunications and Media	850.0	685.0	117.4	–37.7	1,379.9
Ports, Airports, Real Estate, Construction Industry/PPP	1,136.5	570.8	183.0	–188.6	1,335.7
Leveraged Finance, Mezzanine, Equity	0.0	378.1	23.4	499.6	854.3
Financial Institutions, Trade & Commodity Finance	0.0	457.8	115.2	103.3	445.9
	14,775.1	**10,919.6**	**2,973.1**	**167.7**	**22,889.3**
Interest receivable/ancillary claims	107.6	0.0	0.0	48.1	155.7
Other receivables	1,252.6	0.0	0.0	–314.8	937.8
Loans and advances to banks and customers	**16,135.3**	**10,919.6**	**2,973.1**	**–99.0**	**23,982.8**
Financial guarantees**	**865.2**	**1,384.8**	**195.5**	**–0.2**	**2,054.3**
Irrevocable loan commitments**	**9,732.0**	**0.0**	**0.0**	**–1,383.9**	**8,348.1**
Total	26,732.5	12,304.4	3,168.6	–1,483.1	34,385.2

* Other additions and disposals in the loans and advances to banks and customers or financial guarantees principally result from exchange rate variations. Outflows for the irrevocable loan commitments relate to drawdowns of the commitments.
** Refer to the Notes for a breakdown of the amounts by business sector.

The strong rise in the total volume of lending results from the favourable development in new business during the fiscal year. The increase in loans and advances to banks and customers (EUR 7.8 billion) and the guaranteed credits (EUR 1.2 billion) is offset by a decline in irrevocable loan commitments of EUR 1.4 billion. The financial guarantees principally include guaranteed credits amounting to EUR 0.7 billion as well as performance guarantees amounting to EUR 0.6 billion. Other receivables specifically concern call money and term deposits at KfW (EUR 0.8 billion).

The business sector of Shipping as well as Manufacturing Industries, Retail, Health account for the major share of the total volume of lending.

REFINANCING

Refinancing of KfW IPEX-Bank is undertaken almost exclusively by borrowing from KfW. Based on a refinancing agreement KfW provides KfW IPEX-Bank with funds at conditions in line with the market. These conditions are derived from market prices that have to be paid by banks with comparable ratings in the money and capital market. We use current money and capital market products as refinancing instruments. Refinancing funds are obtained in the currencies and for the terms required by our customers. For new lending business we have in most cases been able to pass on the significant increases in refinancing costs during the course of the year to our customers.

Liabilities to banks rose by EUR 9.0 billion (62 %) to EUR 23.7 billion. Within this, promissory note loans increased by EUR 6.9 billion to EUR 17.6 billion and the volume of call money and term money borrowing increased by EUR 2.0 billion to EUR 5.9 billion. Medium- to long-term promissory note loans remain the most important source of refinancing. Funds are principally borrowed in euros and US dollars.

Liabilities to customers increased by EUR 150.9 million to EUR 165.9 million. This includes EUR 69.0 million of short-term deposits from customers.

Borrowings in self-financed business

	31 Dec. 2007	Borrowings	Repayments	Other additions/ disposals, price changes and pro rata/due interest	31 Dec. 2008
	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions
Liabilities to banks					
Current account (KfW)	1.9	0.0	0.0	–1.9	0.0
Call money and term money borrowing (KfW)	3,892.0	24,196.4	22,205.8	–9.3	5,873.3
Promissory note loans and other long-term borrowing (KfW)	10,669.5	7,478.6	863.3	270.4	17,555.2
Interest payable (KfW)	128.8	0.0	0.0	171.1	299.9
KfW total	**14,692.2**	**31,675.0**	**23,069.1**	**430.3**	**23,728.4**
Other banks[1]	1.3	0.0	0.0	10.3	11.6
	14,693.5	**31,675.0**	**23,069.1**	**440.6**	**23,740.0**
Liabilities to customers					
Other creditors	15.1	491.5	341.4	0.7	165.9
Total	14,708.6	32,166.5	23,410.5	441.3	23,905.9

[1] Principally liabilities from administrative loans due to other banks.

EQUITY, SUBORDINATED LOANS AND FUND FOR GENERAL BANKING RISKS IN ACCORDANCE WITH SECTION 340G HGB

Own funds

	31 Dec. 2008		31 Dec. 2007	Change
	EUR in millions	EUR in millions	EUR in millions	EUR in millions
Equity		2,555.1	2,200.0	355.1
of which: subscribed capital	*2,100.0*		*1,750.0*	*350.0*
of which: capital reserve	*450.0*		*450.0*	*0.0*
of which: retained earnings	*0.0*		*0.0*	*0.0*
of which: net income for the year	*5.1*		*0.0*	*5.1*
Subordinated liabilities		1,250.3	1,019.0	231.3
Fund for general banking risks in accordance with Section 340g of the HGB		150.0	150.0	0.0
Total		3,955.4	3,369.0	586.4

During the fiscal year, subscribed capital was increased by EUR 350.0 million to EUR 2,100.0 million, while subordinated loans were increased by USD 240.0 million. As a result, the total portfolio of subordinated loans increased to USD 1,740.0 million, which converts to EUR 1,250.3 million at the period-end exchange rate. The net income for the 2008 fiscal year is EUR 5.1 million. Upon approval of the financial statements, this is to be assigned to other retained earnings.

DEVELOPMENT OF OTHER MAJOR BALANCE SHEET ITEMS

The portfolio of bonds and other fixed-income securities of KfW IPEX-Bank increased by EUR 1.9 billion to EUR 3.8 billion in the 2008 fiscal year due to the expansion of the liquidity reserve. The majority of security assets are held in order to guarantee our liquidity (EUR 3.3 billion). Securities amounting to EUR 0.5 billion are assigned to the investment holdings.

The assets on a trust basis recorded a decline by EUR 1.5 billion, or 6 %, to EUR 25.3 billion. The item principally includes loans from the E&P business unit of KfW, amounting to EUR 25.2 billion, administered by KfW IPEX-Bank on a trust basis. Furthermore, this includes shares administered on a trust basis for KfW amounting to EUR 26.0 million (decline by EUR 25.1 million) and investments amounting to EUR 10.4 million as well as loans on a trust basis from competitive business amounting to EUR 77.2 million.

The investment portfolio amounts to EUR 72.4 million and is EUR 27.1 million above the value as per 31 December 2007. This results in particular from the new purchase of five investments (including Sentient Global Resources Fund III L. P. for EUR 7.9 million, IDFC Private Equity Fund III (SPV) for EUR 4.5 million and Railpool GmbH for EUR 0.5 million) as well as an increase in the capital shares of existing investments.

The majority (76.2 %) of the investment volume is accounted for by investments in Sentient Global

Resources Fund II L.P. (EUR 20.0 million), Hoch-Tief-Airport Capital GmbH & Co KGaA (EUR 19.4 million) and IDFC Private Equity Fund II (SPV) (EUR 15.7 million).

Provisions have risen by EUR 3.1 million (4 %) compared to 31 December 2007, reaching EUR 79.4 million. Apart from provisions for pensions and similar commitments amounting to EUR 42.1 million (increase by EUR 3.3 million), provisions for lending business accounted for EUR 23.6 million (increase by EUR 0.6 million) and provisions for unsettled payments in kind and payroll expenses accounted for EUR 13.7 million (decrease by EUR 0.8 million). In total, EUR 12.1 million was used; EUR 10.9 million was able to be liquidated.

OFF-BALANCE SHEET FINANCIAL INSTRUMENTS

The volume of derivative transactions undertaken to hedge interest and exchange rate risks increased by EUR 4.2 billion to EUR 7.9 billion. As contracts with interest rate risks, interest swaps at EUR 7.5 billion represent the largest component (94 %) in the total volume of off-balance sheet financial instruments. Furthermore, KfW IPEX-Bank uses cross-currency swaps (EUR 0.3 billion), forward exchange deals (EUR 0.1 billion) and FX swaps (EUR 39 million) for hedging. In addition, credit default swaps amounting to EUR 40 million were concluded in which we function as the protection seller.

EARNINGS POSITION

	2008
	EUR in millions
Interest income[1)]	1,210.8
Interest expense	–979.7
Net interest income	**231.1**
Net commission income	117.6
Net trading income	0.1
General administrative expense	–110.0
Other operating income and expenses	1.5
Operating income before risk provisions/valuations	**240.3**
Valuations from securities and investments	–92.5
Risk provisions	–137.9
Risk provisions and valuations, total	**–230.4**
Operating income (= income from operating activities)	**9.9**
Allocation to the fund for general banking risks in accordance with Section 340g of the HGB	0.0
Extraordinary result	0.0
Overall pre-tax result of business activities	**9.9**
Taxes on income	–4.8
Net income for the year	5.1

[1)] Balance of interest income on lending and money market transactions, fixed-income securities and debt register claims and current income from investments.

The most important source of income is net interest income, due to the increased loan and securities portfolio, which contributed EUR 231.1 million to net income. 85 % or EUR 1,029.4 million of the interest income resulted from credit and money market transactions as well as from securities (EUR 176.1 million). Interest expenses amount to EUR 979.7 million and are mainly ascribed to accepted promissory note loans as well as money market transactions (EUR 864.6 million). Interest expenses for subordinated liabilities amounting to EUR 47.5 million for the subordinated loans are also included. Net commission income amounts to EUR 117.6 million and includes the net result from processing fees in lending activities (EUR 100.5 million) and guarantee commissions (EUR 17.1 million).

Administrative expense amounts to EUR 110.0 million. Of these, personnel expense at EUR 49.1 million amounted to 45 % of the total expenses. Non-personnel expense amounts to EUR 60.9 million and mainly includes the expenses for services at EUR 31.0 million, office operating costs at EUR 12.6 million, occupancy costs at EUR 6.9 million and travel costs at EUR 3.5 million.

Administrative expense

	2008
	EUR in millions
Wages and salaries	42.7
Social security contributions	4.5
Expense for pension provision and other employee benefits	1.9
Personnel expense	**49.1**
Other administrative expense	60.7
Depreciation on equipment	0.2
Non-personnel expense	**60.9**
Administrative expense	110.0

RISK PROVISIONS AND VALUATION

The totals of risk provisions and valuation are principally composed of write-downs and impairments on receivables and securities, additions to provisions for lending business as well as reversals of impairments and provisions for lending business. In terms of risk provisions for lending business, KfW IPEX-Bank always differentiates between specific loan loss provisions and portfolio loan loss provisions. Portfolio loan loss provisions are calculated using an expected loss concept, whereby the risk provisions for all loans without specific loan loss provisions are based on the expected loss within one year.

Total expense of EUR 230.4 million was posted in the risk provisions and valuation result for the fiscal year, of which EUR 137.9 million was for risk provisions for lending business and EUR 92.5 million for write-downs and valuation of the securities portfolio.

Further information about risk provisions for lending business and the valuation result can be found in the risk report.

SUMMARY

KfW IPEX-Bank can look back on a successful fiscal year. However, the very good operating result was impaired by the consequences of the financial market crisis and the general economic downturn.

In spite of significant risk provisions for lending business and valuation losses in the liquidity portfolio, we were able to achieve a slightly positive result in 2008.

SUBSEQUENT EVENTS

There are no events of particular importance that have taken place after the closing of the fiscal year.

(As at 24 February 2009)

RISK REPORT

GENERAL CONDITIONS OF RISK MANAGEMENT AND CONTROLLING

The core of the risk strategy pursued by KfW IPEX-Bank is to undertake risks in a deliberate and controlled fashion with the objective of earning commensurate revenue. In doing so it is necessary to ensure the risk-bearing capacity at any time. Professional and responsible risk management and its integration into overall bank management represent a significant success factor for the bank. All significant components of the integrated system for risk-adjusted result control by the bank undergo continuous expansion and further development.

We understand risk to mean the danger of unfavourable future developments which could have a sustained negative effect on the net assets, financial position and results of operations of the bank. Specifically,

- counterparty risks,
- market risks and
- operational risks

are differentiated as risk categories relevant to KfW IPEX-Bank.

Liquidity risks are of secondary importance due to the refinancing of KfW IPEX-Bank being carried out within the KfW Group.

BUSINESS AND RISK STRATEGY

The Board of Managing Directors of KfW IPEX-Bank defines the principles of the bank's risk policy within the scope of its overall responsibility, taking account of the strategy's compatibility with the general risk policy conditions of KfW Bankengruppe applicable to the Group as a whole.

The risk strategy is consistent with the business strategy, according to the provisions of the minimum requirements for risk management (MaRisk), and takes account of all business units and risk types that are of significance to the bank. As well as an overarching risk strategy applicable to the bank as a whole, the Board of Managing Directors of KfW IPEX-Bank has approved its own risk strategies for counterparty risks, market risks and operational risks.

The nature and extent of risk-taking as well as the way the risks are dealt with are derived from our business model, the main aspects of which are defined in the business strategy. The most important risk types for KfW IPEX-Bank in this case are counterparty risks as well as market risks (including the credit spread risk). Compared to these, operational risks are of somewhat secondary importance.

The central guiding principle for the risk strategy is to maintain the risk-bearing capacity.

ORGANISATION OF RISK MANAGEMENT

The Board of Managing Directors represents the highest decision-taking body with responsibility for issues relating to risk management and controlling. To this extent, it is responsible in particular for defining the risk strategy, risk standards and evaluation methods as well as risk control. The risk functions of KfW IPEX-Bank include risk management, risk controlling and credit management. These are subject to regular inspection, independent of bank procedures, by our Internal Auditing department.

The front office areas are separated from the functions of risk management, risk controlling, accounting and credit management (back office) up to the level of the Board of Managing Directors. This means the separation of functions between front office and back office demanded in the minimum requirements for risk management (MaRisk) is taken into account at all levels of the organisational structure.

Risk management includes the organisational units of "Second Vote", "Portfolio Management", "Price and Risk Instruments" as well as "Fundamental Issues and Methodology". The task of the "Second Vote" unit is to assess pending loan decisions which have to be voted on, with regard to the risk aspects. The "Portfolio Management" unit manages our loan portfolio on the basis of risk/return considerations. The "Price and Risk Instruments" organisational unit updates the risk and price instruments used, and tracks their ongoing development. The "Fundamental Issues and Methodology" unit is responsible for looking after the method used in the rating and pricing processes as well as the system of key risk indicators for counterparty risk, and also for clarifying fundamental supervisory issues with regard to counterparty risk.

Risk Controlling is responsible for the methodology, measurement and monitoring of market risk and credit spread risk as well as reporting to the Board of Managing Directors about these risks. Risk Controlling also has responsibility for reporting on transactions with increased counterparty risks (watch list and report on non-performing loans), reporting on revenue and risk planning for the bank as well as cooperating with Risk Management to prepare the quarterly risk report.

Credit Management is responsible for looking after the loan portfolio in its entirety. The most important tasks in risk commitment supervision are concerned with bringing about and implementing decisions on loan follow-up, including the first vote on risk-relevant decisions on loan follow-up, as well as performing the annual rating of borrowers, checking and valuating collateral.

Internal Auditing assesses the effectiveness and appropriateness of the risk management system independent of bank procedures and reports directly to the Board of Managing Directors. This means it makes an important contribution to ensuring the effectiveness of the internal controlling system. Audits are planned and undertaken on a risk-orientated basis.

KfW IPEX-Bank outsources some functions and activities in risk management and controlling to KfW. The outsourced functions and activities are regulated in service level agreements between KfW IPEX-Bank and KfW. By outsourcing monitoring, we ensure that we fulfil our responsibility also for these functions outsourced to KfW in accordance with Section 25 a (2) of the German Banking Act *(Gesetz über das Kreditwesen, KWG)*.

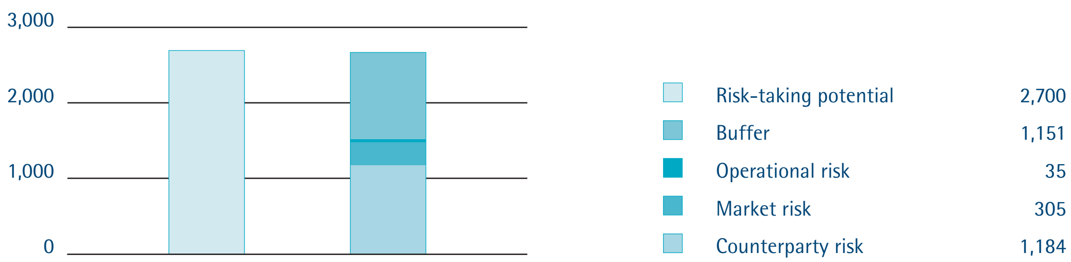
The Board of Supervisory Directors is responsible for regular monitoring of the Board of Managing Directors. It is also involved in important loan and refinancing decisions.

RISK-BEARING CAPACITY AND REGULATORY CAPITAL REQUIREMENTS

As part of its risk-bearing capacity concept, KfW IPEX-Bank has defined its risk coverage potential, set a risk budget for entering into risks at overall bank level and allocated the risk budget to individual risk types and business units in accordance with the business strategy.

The Board of Managing Directors of KfW IPEX-Bank has defined the core capital as the maximum available risk-taking potential. A risk budget for entering into risks is set based on this and includes a risk buffer at overall bank level. The risk buffer is calculated based on stress tests. The resulting risk budget is divided between the three risk types of counterparty risk, market risk and operational risk in accordance with the business strategy.

Risk-bearing capacity as at 31 December 2008
EUR in millions



This overview shows that the Board of Managing Directors has reserved EUR 1,151 million or 44 % of the risk potential in the buffer in order to guarantee its risk-bearing capacity at all times even if there is a significant rise in the bank's overall risk exposure. In accordance with the business strategy, the largest slice of the remaining risk budget, EUR 1,184 million or 44 %, is made available for entering into counterparty risks, while a significant budget – EUR 305 million or 11 % – is also available for market risks. At EUR 35 million or 1 % of the risk taking potential, operational risk plays a secondary role. The regulatory capital requirements must be taken into account as a strict ancillary condition for in-house risk control. As a newly founded bank, KfW IPEX-Bank has to maintain an increased total capital ratio of 12 % instead of 8 % during the first three fiscal years, in accordance with the German Solvency Regulation *(Solvabilitätsverordnung, SolvV)*. We have implemented the processes required to ensure that this requirement is maintained. The total capital ratio as at 31 December 2008 was 14.05 %.

COUNTERPARTY RISKS

Lending activities represent the core business of KfW IPEX-Bank. Accordingly, an important focus of overall risk management is concerned with controlling and monitoring counterparty risks. In terms of the counterparty risk, we differentiate between the risks types of credit risk, country risk and investment risk.

Credit risk

Credit risk not only includes classic risks but also issuer risk, counterparty risk and replacement risk.

Credit risk in the classic sense is understood to mean the risk of potential financial losses or lost profits which could arise due to default or impairment of the borrower's creditworthiness. Similarly, issuer risk is understood to mean the danger of a creditworthiness impairment or default of an issuer of securities.

The counterparty and replacement risk is reflected in potential financial losses in the event of failed fulfilment of pending transactions by the counterparty, in the event that concluding a new transaction on the market might only be possible under less favourable conditions (more positive market value) than in the case of the original transaction.

Country risk

Country risk encompasses the risk of KfW IPEX-Bank suffering a financial loss due to a country's foreign currency restrictions (transfer risk) or inability to render payment or if government debtors or guarantors are unwilling to render payment (sovereign risk). This risk is regarded as separate from the borrower's creditworthiness.

Shareholder risk (investment risk)

Investment risk is understood to be the risk of financial loss arising from the provision of equity to third parties. Compared to credit risks, investment risks currently play a secondary role in KfW IPEX-Bank.

MEASUREMENT OF COUNTERPARTY RISK

Counterparty risk is valued at the level of the individual counterparty or the individual transaction, based on internal rating processes. In this case, we use the advanced approach based on internal ratings of the Independent Regulatory Board for Auditors (IRBA). The following rating systems of KfW IPEX-Bank are permitted to use the IRBA under supervisory law:

- Corporates
- Banks
- Countries
- Simple risk weighting for special financing operations (elementary approach)

Our IRBA rating systems are used in accordance with the German Solvency Regulation (SolvV) for a separate estimate of the central risk parameters[1]:

- (Probability of default, PD)
- (Loss given default, LGD)
- (Exposure at default, EAD).

With the exception of special financing, these processes are based on scorecards and follow a uniform, consistent model architecture. A cash flow-based rating process is used for project finance. In this case, the creditworthiness is determined by cash flows from the financed object. The rating processes are calibrated for a one-year probability of default. Both the ratings for new customers and the follow-on ratings for existing customers are defined by observing the principle of dual control in the credit operations departments.

Consistency of the individual rating processes is guaranteed by representing the probabilities of default on a group-wide, uniform master scale. The master scale consists of 20 different sub-classes which can be grouped together into the four classes of investment grade, non-investment grade, watch list and default. Each master scale class is based on an average probability of default which is subjected to a validation process with regard to the particular rating process. There are detailed organisational instructions for each rating process, which regulate in particular responsibilities, authorities and the control mechanisms. Comparability between internal ratings and external ratings by rating agencies is assured by mapping the external ratings onto the master scale.

Regular validation and further development of the rating processes ensures that it is possible to respond to changing general conditions with little delay. The objective is to increase the discriminatory power of all rating processes continuously.

Not only the outstanding volume of lending but also the valuation of collateral have significant influence on the probability of default. As part of the collateral valuation for eligible collateral the expected net proceeds from the realisation of collateral in the event of default is estimated over the entire term of the loan. This takes account of collateral deductions that, for personal collateral, are based on the probability of default and the loss quota of the collateral grantor. In the case of security in rem, the deductions are attributable not only to market price fluctuations but also, above all, to value losses due to depreciation. The value thus calculated is an im-

[1] The elementary approach does not estimate the PD and LGD, but rather assigns a (transaction-specific) slotting note which is transferred into a risk weighting in accordance with supervisory requirements.

portant component of loss estimates (LGD). The various valuation procedures for individual collateral types are based on internal and external loss databases, as well as expert estimates, depending on the availability of data. The valuation parameters are subject to a regular validation process. This means reliable valuation of the collateral position is guaranteed at level of individual collateral items.

The interaction between risk properties of the individual commitments in the loan portfolio is assessed using an internal portfolio model. Pooling together large portfolio shares into individual borrowers or borrower groups harbours the risk of major defaults which threaten the continuation of business. Risk management at KfW IPEX-Bank evaluates individual, industry and country risk concentrations based on the economic capital concept. The concentrations are primarily measured based on the economic capital (ECAP) commitment. This ensures that both high volumes and unfavourable probabilities of default are taken into account, as are any disadvantageous correlations between the risks.

A risk report is prepared every quarter to inform the Board of Managing Directors in detail about the level of the risk coverage potential, the limits and the current risk situation. Major risk parameters are monitored continuously, with monthly reports sent to the Board of Managing Directors.

CONTROLLING THE COUNTERPARTY RISK

The following central instruments are used for controlling the counterparty risk at KfW IPEX-Bank:

Limit management

The main objective of the limit management system (LMS) is to avoid individual and cluster risks as well as correlated overall risks. Limitation is pursued along the dimensions of borrower unit, country and, in the future, the industry as well. The net exposure and economic capital variables are limited on the basis of a uniform upper loss limit.

Risk guidelines

In addition to the LMS, the credit portfolio is controlled by risk guidelines. For this purpose, Risk Management proposes specific guidelines based on the current risk situation and the business policy objective. These are approved by the Board of Managing Directors. These guidelines can also form part of strategies that are worked out by the relevant front offices and Risk Management for individual industry sectors or products.

Risk guidelines can be applied to all relevant key data of credit risk (e.g. maturity, guarantee, rating). Industry- and product-specific application is possible. A review is carried out on an annual basis, although adjustments are also possible during the year. Irrespective of the risk guidelines approved by the Board of Managing Directors of KfW IPEX-Bank, we are also subject to the portfolio guidelines applicable at KfW Group level.

Stress tests

A possible additional ECAP requirement is calculated for certain scenarios as part of stress tests in order to be prepared for the most significant possible increase in loan default risks. The effects of diverse (external) events on the risk structure of the credit portfolio and the economic risk indicators can be examined in this way. Stress scenarios are modelled by changing the following risk parameters:

- Probabilities of default
- Loss ratios
- Exposure at default
- Correlations

Active portfolio management

Active portfolio management takes specific measures in order to spread the risks of the portfolio, thereby optimising the risk structure of the loan portfolio. Portfolio management measures are taken in order to expand the latitude of business policy and to enable targeted control of the credit portfolio.

For this purpose, KfW IPEX-Bank has access to various instruments at individual transaction and portfolio level. These include transferring risk in both directions via the banking market (syndication via the primary and secondary markets), insurance market (e.g. PRI, ECA) and/or capital market (single name CDS). The instruments are checked for suitability on an ongoing basis and expanded successively.

The initiative for active portfolio management comes from Risk Management.

Portfolio risk committee

In addition to operational cooperation between Risk Management and the front office departments, a portfolio risk committee (PRC) meets every quarter and is chaired by the member of the Board of Managing Directors who is responsible for risk management. In its quarterly meetings, the PRC selects which risk reduction measures to discuss and investigates the extent to which measures are being implemented. Furthermore, possible risks in the market environment and observations on the portfolio are discussed in this committee.

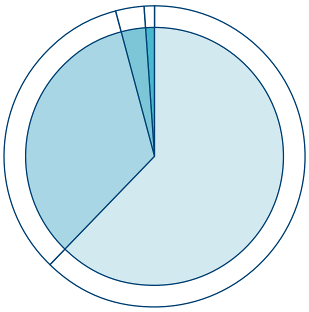
Problem loan processing

In the loan portfolio, commitments representing higher risks are divided into a yellow list, a watch list and a list of non-performing loans (NPL). The purpose of the watch list is to identify potential problem loans at an early stage and to prepare problem loan processing if required. The particular borrower's environment is subjected to particular scrutiny for this purpose. This involves examining and documenting the economic conditions as well as the transferred collateral on a regular basis, as well as formulating proposals for action. Depending on the status of the problem loan, the Restructuring Department takes over the entire processing of the problem loans from the responsible credit department. This ensures that specialists are involved at an early stage so as to guarantee comprehensive and professional problem loan management.

Measures for dealing with watch list and NPL cases are discussed and decided on by the counterparty risk committee which meets monthly. The Board of Managing Directors of KfW IPEX-Bank may have to take decisions in specific cases.

STRUCTURE OF THE COUNTERPARTY RISK

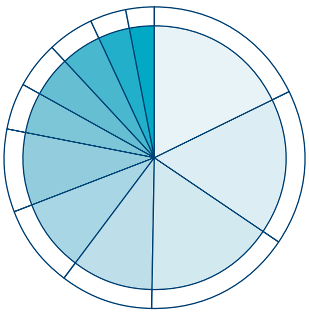
Distribution of economic net exposure by rating class
Total net exposure: EUR 14.0 billion



Investment grade (M1-M8)	63 %
Non-investment grade (M9-M15)	34 %
Watch list (M16-M18)	3 %
Non-performing loans (M19-M20)	1 %

Due to the intensification of the financial market crisis and the general slowdown in the economy, KfW IPEX-Bank observed an impairment in the rating structure of its portfolio during the fourth quarter in particular. However, the overall creditworthiness structure of the portfolio at year-end can be described as good. The maximum net financial exposure is EUR 14.0 billion. Rating classes M1–M8 make up 63 % of this. A further 34 % are in rating classes M9–M15. The proportion of watch list and NPL loans amounts to only 3 % or 1 % of the net financial exposure, respectively.

Distribution of economic capital by business sector
Total ECAP: EUR 995.0 million

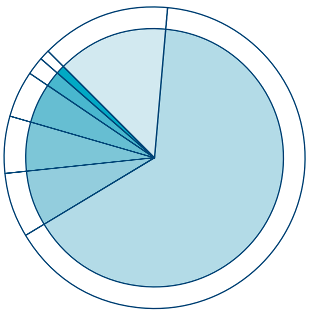


Basic Industries	18 %
Manufacturing Industries, Retail, Health	17 %
Shipping	16 %
Telecommunications and Media	10 %
Leveraged Finance, Mezzanine, Equity	9 %
Rail and Road	9 %
Ports, Airports, Real Estate, Construction Industry/PPP	5 %
Others[1]	5 %
Power, Renewables and Water	5 %
Financial Institutions, Trade & Commodity Finance	4 %
Aviation	3 %

[1] The main items here are securities in the liquidity portfolio that are not assigned to a business sector.

This overview shows a good diversification of the portfolio throughout individual sectors. The largest economic capital commitment is in the business sector of Basic Industries (18 %), Manufacturing Industries, Retail, Health (17 %) and Shipping (16 %).

Distribution of economic capital by region
Total ECAP: EUR 995.0 million



Germany	14 %
Rest of Europe	65 %
Asia	7 %
Latin America	6 %
North America	5 %
Africa	2 %
Australia and Oceania	1 %

Taking a regional perspective, business is focused on Europe including Germany. This accounts for 79 % of the committed economic capital for the counterparty default risk. Overall, country risks are of comparatively minor importance to the bank due to the regional distribution and the collateral.

RISK PROVISION FOR COUNTERPARTY RISKS

Appropriate account is taken of all recognisable loan default risks from lending business by creating risk provisions. We significantly increased our risk provisions during the past fiscal year in view of the financial market crisis. The specific loan loss provisions or provisions for lending business amounted to EUR 126.7 million as at 31 December 2008, compared to EUR 15.7 million as at 31 December 2007. At the same time, portfolio loan loss provisions for loans without specific loan loss provisions were increased to EUR 105.8 million.

The portfolio of specific loan loss provisions and provisions for lending business for financial guarantees as well as irrevocable loan commitments, structured according to business sector, was as follows as at 31 December 2008:

Business sector	31 Dec. 2008	31 Dec. 2007	Change
	EUR in millions	EUR in millions	EUR in millions
Rail and Road	56.2	0.0	56.2
Basic Industries	39.2	1.9	37.2
Manufacturing Industries, Retail, Health	31.3	13.7	17.6
Total	126.7	15.7	111.0

Portfolio loan loss provisions as well as portfolio provisions (for guarantees and irrevocable loan commitments) are formed for loans without specific loan loss provisions on the basis of an expected loss concept, with the following structure by business sector:

Business sector	31 Dec. 2008	31 Dec. 2007	Change
	EUR in millions	EUR in millions	EUR in millions
Basic Industries	20.7	13.6	7.0
Shipping	20.5	23.9	−3.4
Manufacturing Industries, Retail, Health	20.1	14.0	6.0
Leveraged Finance, Mezzanine, Equity[1)]	8.3	0.0	8.3
Financial Institutions, Trade & Commodity Finance[1)]	8.2	0.0	8.2
Rail and Road	8.0	14.7	−6.7
Power, Renewables and Water	6.7	6.2	0.5
Telecommunications and Media	5.8	6.9	−1.2
Ports, Airports, Real Estate, Construction Industry/PPP	5.0	4.1	0.9
Aviation	2.7	4.5	−1.8
Total	105.8	87.9	17.9

[1)] New business sector in 2008

In addition to risk provisions for lending business, write-downs on long-term securities amounting to EUR 20.1 million were undertaken.

MARKET RISKS

KfW IPEX-Bank does not engage in proprietary trading, therefore its market risks result exclusively from the banking book. The market risks of relevance to us are the interest rate risk and the currency risk.

Fixed-income securities are kept as part of liquidity control. As well as being subject to the general interest rate risk, the earnings from these securities are also exposed to a specific risk, referred to as the credit spread risk. The risk of issuer default is not measured using the credit spread risk; rather, it forms part of the loan default risk (counterparty risk).

Interest rate risk and forreign exchange risk
As part of its market risk strategy, the Board of Managing Directors of KfW IPEX-Bank has decided that interest rate risks are to be avoided in all cases and that maturity transformation is not an option. Observance of this instruction is monitored on a weekly basis by Risk Control. The risk of a present value loss is measured by means of the value-at-risk methodology on a monthly basis.

The interest rate risk in the banking book is measured using a value-at-risk (VaR) model on a confidence level of 99.96% which accounts for the EUR and the USD positions in the banking book.

The FX risk is calculated using a parametric VaR model, also with a confidence level of 99.96 %. Diversification effects between the interest rate and the FX risks that would reduce the overall risk are not taken into account. Since two separate models are used, this is based on the conservative assumption that there is a completely positive correlation between both risks. The following table shows the interest position as well as the measured interest rate and FX risks as at 31 December 2008.

Present value Interest and currency position	VaR interest rate risk (99.96 %/3-month holding period)	VaR FX risk (99.96 %/3-month holding period)
EUR in millions	EUR in millions	EUR in millions
2,302.0	9.2	19.2

The risk values for the interest rate risks show that the position adopted by KfW IPEX-Bank makes it practically immune to interest rate fluctuations. Even in the worst case scenario (99.96 %), the loss would amount to less than 1 % of its total present value. Also, sensitivity to exchange rate variations is slight, although it is increasing moderately. One reason for this is the increasing volatility of exchange rates and another is the continuing growth in the amount of business conducted in USD, which results in a growing volume of contractually undetermined margins which are not hedged according to the market risk strategy.

Credit spread risks in the liquidity portfolio

The liquidity portfolio controlled by the Treasury Department in order to maintain the liquidity ratio according to the German Liquidity Regulation *(Liquiditätsverordnung, LiqV)* had a volume of EUR 3,337 million as at 31 December 2008 and included 129 items. The issuer structure as at the reporting date was as follows:

Issuer	Nominal volume
	EUR in millions
Financial institutions	1,977
Pfandbrief bonds	775
Foreign countries	382
Corporates	153
Federal Republic of Germany	50
Total	3,337

To take account of the financial market crisis which became much more serious from September 2008 onwards, the majority of investments was undertaken in comparatively low-risk securities, while the volume of the portfolio during the second half of the year was kept largely constant. Principally bonds with short remaining terms were purchased, thereby reducing the portfolio's sensitivity to increasing spreads. For example, the spread BPV[2)] of the portfolio fell to approx. EUR 6,000 at the end of the year.

However, these measures were unable to compensate for the significant increases in the volatility of securities markets during the last third of the year, which were also accompanied by increasing illiquidity and a resulting lack of pricing. As the credit crunch

[2)] The spread BPV specifies the portfolio loss if the credit spreads of all bonds increase by 1 bp simultaneously. The loss is specified in euros.

became more serious, the relative risk increased from 0.28 % (31 August 2008) to 0.70 % (31 December 2008) of the portfolio volume. For weekly reporting, the credit spread risk is measured with an assumed holding period of 10 days, with a confidence level of 99.96 %. The credit spread risk as per 31 December 2008 was EUR 23.5 million.

Interest rate risks arising from the items in the portfolio are recorded in the measurement for the bank as a whole, as explained in the previous section. There are no currency risks for the portfolio, since exclusively EUR items are held.

The securities held as a liquidity reserve are valued strictly at the lower of cost or market. The market value write-downs[3)] or realised losses amounted to EUR 73.7 million in the 2008 fiscal year. The largest proportion of these, EUR 67.3 million, resulted from market value write-downs.

Liquidity risks

KfW IPEX-Bank has defined the procedure for dealing with liquidity risks in a separate risk principle. As far as liquidity risks are concerned, we differentiate between the risk of not settling payment obligations when due, or not settling them on time, because of lack of liquidity (liquidity risk in the narrow sense) and the risk of being unable to liquidate or balance out payment obligations, or only being able to do so at a loss, due to inadequate market depth or market disruptions (market liquidity risk).

Payment capability is ensured at all times through the refinancing agreement with KfW, according to which KfW is obliged to provide KfW IPEX-Bank with the required funds at any time, under conditions in line with the market. Our liquidity requirements are already included in the refinancing planning of KfW at Group level. As a result, the liquidity risk in the narrow sense can be regarded as having been ruled out in principle.

In addition to the refinancing agreement, KfW IPEX-Bank has a securities portfolio in order to guarantee its ability to render payment at any time in accordance with Section 11 of the German Banking Act *(Gesetz über das Kreditwesen, KWG)* in conjunction with the German Liquidity Regulation (LiqV). The securities in this liquidity portfolio are allocated to the liquidity reserve required by Section 340 f (1) Sentence 1 of the German Commercial Code *(Handelsgesetzbuch, HGB).*

Operative liquidity control is undertaken by the Treasury Department of KfW IPEX-Bank based on short-, medium- and long-term liquidity planning. In addition, a calculation is performed for the liquidity figure of the first term period (remaining terms up to 1 month) in order to keep the figure within a specified target corridor.

OPERATIONAL RISKS

According to the German Solvency Regulation (SolvV), operational risk is "the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events". Reputation risks are chiefly based on operational risks, therefore they are included in the operational risk management process at KfW IPEX-Bank.

[3)] The valuation in the balance sheet is undertaken on the basis of a model valuation in some cases; see the information in the Notes.

Key organisational elements of operational risk management are:

- Conceptual separation into central operational risk controlling and decentralised operational risk management units;
- Establishment of an operational risk decision-making and steering committee in the form of the Board of Managing Directors of KfW IPEX-Bank;
- Integration of Internal Auditing into the entire operational risk process as an independent control mechanism.

The operational risk strategy forms the framework for dealing with operational risks in KfW IPEX-Bank. It is based on the requirements put forward by KfW and combines internal with regulatory guidelines and instructions. The objectives of the strategy are to make risks transparent, to control them and to calculate the regulatory capital required for dealing with them.

The aims of operational risk control are to avoid, to a large extent, any significant losses, to improve the risk profile by indicating potential problem areas and to optimise business processes with regard to cost/benefit aspects. Requirements on risk management also derive from the standard approach to operational risks which we use as the basis when calculating the regulatory capital for operational risks.

The most important instruments in operational risk control include risk assessment, the early warning system and the operational risk event database. The annual risk assessment is a structured estimate of operational risks as part of which the particular profile of an operational risk segment is ascertained based on a risk model. Information relevant for control purposes is presented to the Board of Managing Directors and is used as the basis for decisions in risk control.

The early warning system is a system for gathering and measuring risk indicators from the area of operational risks at overall bank level. It is used as an instrument both for managing and controlling risks as well as a management information system. A process for regular monitoring is to be established during 2009.

The event database enables losses suffered due to operational risks to be recorded based on their causes. The data recorded on a decentralised basis is evaluated both centrally and locally, thereby also enabling ad-hoc analyses of the bank's risk profile to be made.

SUMMARY

Deliberately entering into and controlling risks is an important part of the overall control system of the KfW IPEX-Bank. The methods and systems for identifying, measuring and monitoring risks are in line with statutory and supervisory requirements, and correspond to market standards. Organisational and process configuration of risk control guarantees that our risk strategy is implemented and complied with.

The bank's risk-bearing capacity remained in place at all times throughout the past fiscal year. Also, the regulatory requirements on equity capital and reserves were complied with throughout. In view of the financial market crisis and the general slowdown in the economy, we significantly reinforced our risk provision during the past fiscal year, thereby taking account of all recognisable risks.

The risk management system of KfW IPEX-Bank will be expanded further during 2009. Established systems and processes for measuring and controlling risks will continue to be optimised.

FORECAST REPORT

The global economy is continuing on its cyclical downward trend, which is being significantly exacerbated and accelerated by the financial market crisis. Negative effects on assets, reduced finance opportunities and a massive loss of confidence are damping down global demand. Further economic decline can be expected in both industrialised and emerging countries. In the opinion of KfW IPEX-Bank, the measures taken by numerous governments and central banks to stabilise the financial markets and stimulate the economy will not lead to any sort of stabilisation before the second half of 2009. We are expecting significantly lower growth in the global economy for 2009 and 2010 than was achieved on average during the past few years, whilst important regions will suffer from stagnation or even recession. The bank is expecting the volume of new business in 2009 and 2010 to be maximum EUR 8 billion in each year.

The low entry barriers to the German economy and its pronounced dependency on exports means that the country is suffering greatly due to declining growth in the global economy. This will also damp down domestic investment activities in addition to its immediate effects on exports. The reciprocal dependencies between the real economy and the financial sector mean that further development will remain subject to uncertainty in view of the ongoing financial market crisis – both nationally and internationally. Crises in the real economy would trigger further intensification of problems in financial markets, leading to the risk of an economy-wide credit crunch.

We are expecting an increased requirement for risk provisions for lending business in 2009 due to the difficult overall situation in the economy. However, KfW IPEX-Bank will cover these risks through the further increase in equity decided for 2009, and will be able to continue acting as a long-term finance partner.

FINANCIAL STATEMENTS OF KFW IPEX-BANK GMBH 2008
BALANCE SHEET AS AT 31 DECEMBER 2008

Assets

		31 Dec. 2008			31 Dec. 2007[1]		
	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands
1. Cash reserves							
Cash on hand			5			4	
2. Loans and advances to banks							
a) Due on demand			229,865			487,784	
b) Other loans and advances			1,523,623	**1,753,488**		1,231,531	**1,719,315**
3. Loans and advances to customers				**22,229,281**			**14,415,921**
of which: municipal loans	*33,589*						
4. Bonds and other fixed-income securities							
a) Money market instruments							
of other issuers		43,225	43,225		0	0	
b) Bonds and notes							
ba) of public issuers		437,893			19,609		
of which: eligible as collateral with the Deutsche Bundesbank	*437,893*						
bb) of other issuers		3,357,895	3,795,788		1,946,324	1,965,933	
of which: eligible as collateral with the Deutsche Bundesbank	*2,806,658*			***3,839,013***		*0*	***1,965,933***
5. Investments				**72,388**			**45,259**
6. Assets held in trust				**25,288,160**			**26,781,903**
of which: loans held in trust	*25,251,811*						
7. Intangible assets				**7**			**8**
8. Property, plant and equipment				**685**			**721**
9. Other assets				**88,449**			**6,491**
10. Prepaid expenses and deferred charges				**19,385**			**3,091**
Total assets				53,290,861			44,938,646

[1] See the Notes for explanations of the comparative figures

Liabilities and equity

		31 Dec. 2008			31 Dec. 2007[1]		
	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands
1. Liabilities to banks							
a) Due on demand			75,345			12,034	
b) With agreed term or period of notice			23,664,689	**23,740,034**		14,681,495	**14,693,529**
2. Liabilities to customers							
Other liabilities							
With agreed term or period of notice		165,931	165,931	**165,931**	15,075	15,075	**15,075**
3. Liabilities held in trust				**25,288,160**			**26,781,903**
of which: loans held in trust	*25,251,811*						
4. Other liabilities				**7,547**			**1,406**
5. Deferred income				**54,325**			**1,483**
6. Provisions							
a) Provisions for pensions and similar commitments			42,088			38,831	
b) Tax provisions			6			7	
c) Other provisions			37,352	**79,446**		37,459	**76,297**
7. Subordinated liabilities				**1,250,269**			**1,018,953**
8. Fund for general banking risks				**150,000**			**150,000**
9. Equity							
a) Subscribed capital			2,100,000			1,750,000	
b) Capital reserves			449,992			449,992	
c) Retained earnings							
Other retained earnings		8	8		8	8	
d) Net income for the year			5,149	**2,555,149**		0	**2,200,000**
Total liabilities and equity				53,290,861			44,938,646
1. Contingent liabilities							
From financial guarantees		**2,054,337**	**2,054,337**		865,233	**865,233**	
2. Other obligations							
Irrevocable loan commitments		**8,348,149**	**8,348,149**		9,731,993	**9,731,993**	

INCOME STATEMENT
1 JANUARY TO 31 DECEMBER 2008

Expenses

		2008			2007[1]		
	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands
1. Interest expense				**979,715**			**602,840**
2. Commission expense				**3,816**			**1,262**
3. Administrative expense							
a) Personnel expense							
aa) Wages and salaries		42,721			37,850		
ab) Social security contributions, expense							
for pension provision and other employee benefits		6,377	49,098		4,453	42,303	
of which: for pension provisions	*1,859*						
b) Other administrative expense			60,682	**109,780**		50,515	**92,818**
4. Depreciation and impairment on property, plant and equipment and intangible assets				**209**			**190**
5. Other operating expenses				**19**			**88**
6. Write-downs of and value adjustments on loans and certain securities and increase of loan loss provisions				**210,249**			**50,079**
7. Allocations to fund for general banking risks				**0**			**28,904**
8. Write-downs of and value adjustments on investments, shares in affiliated enterprises and securities treated as fixed assets				**20,081**			**1**
9. Taxes on income				**4,778**			**442**
10. Net income for the year				**5,149**			**96,544**
Total expenses				1,333,796			873,168

[1] See the Notes for explanations of the comparative figures

Income

		2008			2007[1)]		
	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands
1. Interest income from							
a) Lending and money market transactions			1,029,380			739,667	
b) Fixed-income securities and debt register claims			176,140	**1,205,520**		42,974	**782,641**
2. Current income from investments			**5,342**	**5,342**		**2,340**	**2,340**
3. Commission income				**121,414**			**61,652**
4. Net earnings on financial transactions				**93**			**130**
5. Other operating income				**1,427**			**26,405**
Total income				1,333,796			873,168

NOTES

PRELIMINARY REMARKS

KfW IPEX-Bank GmbH was founded on 16 March 2007 with share capital amounting to EUR 6.5 million, in order to prepare for the legal separation of the competitive business in the Export and Project Finance business unit from KfW as demanded by the European Commission. During the abridged 2007 fiscal year, KfW IPEX-Bank GmbH did not undertake any operative business activity or employ any of its own personnel. Its foundation was moved forward in order to create the legal basis for various measures relating to the legal separation.

The operational unit "KfW IPEX-Bank" was run as a legally dependent company within KfW until 31 December 2007, but was transferred from KfW into KfW IPEX-Bank GmbH as a contribution in kind effective from 31 December 2007/1 January 2008. In order to achieve comparability, values for KfW IPEX-Bank GmbH as at 31 December 2007 in the balance sheet form and the income statement form were supplemented by values from the operational unit. The "start portfolio" of KfW IPEX-Bank was defined during the course of 2007, therefore individual items in the income statement display only limited comparability with the values for the 2008 fiscal year. The internal annual financial statements of the operational unit for the 2007 fiscal year were issued an unqualified auditor's report.

ACCOUNTING AND VALUATION REGULATIONS

The individual financial statements for KfW IPEX-Bank GmbH have been drawn up in accordance with the requirements of the German Commercial Code *(Handelsgesetzbuch, HGB)*, the Ordinance Regarding the Accounting System for Banks *(Kreditinstituts-Rechnungslegungsverordnung, RechKredV)* and the German Limited Liability Companies Act *(Gesetz betreffend die Gesellschaften mit beschränkter Haftung, GmbHG)*. Statements on individual items in the balance sheet, which may be made either in the balance sheet or the notes, are provided in the Notes.

The cash reserves, loans and advances to banks and customers, and the other assets have been shown at cost, par or a lower value in accordance with the lower of cost or market principle.

The securities held as a liquidity reserve are valued strictly at the lower of cost or market. If these securities were packaged together with derivative financial instruments to make a valuation unit for hedging interest rate risks, then the valuation was performed at amortised cost – to the extent that compensating effects arose in the underlying and hedging transaction.

The financial market crisis has resulted in a cessation of trading in many fixed-income securities in active markets. Since the third quarter of 2008, there has been an environment of only restricted market liquidity in particular for bonds issued by banks, bonds from some public issuers as well as certain corporate bonds. This has resulted in the exchange or market prices observed at the balance sheet date incorporating illiquidity deductions, some of which were of significant amounts.

As a result, the present value for these securities which are not traded in active markets cannot be derived from exchange or market prices because these no longer reflect the actual economic value. Consequently, a valuation model for determining the present value was used for the securities in question. The discounted cash flow method was used for discounting the future expected payment streams on the present value. This procedure took account of the change in creditworthiness ratings and risk-free interest rates as well as the general market tightening due to low liquidity. The model valuation was used for the first time on 31 December 2008, exclusively for securities in the liquidity reserve.

Fixed asset securities were valued according to the moderate lower of cost or market principle. When a valuation unit was involved, it was valued at amortised cost.

No securities have been allocated to the trading stock. There were no reallocations between the security portfolios.

The investments have been shown at purchase cost.

Property, plant and equipment are shown at acquisition or production cost, reduced by systematic depreciation in accordance with the expected useful life of the items. Additions and disposals of capital assets during the course of the year were depreciated pro rata temporis according to tax regulations. A compound item was set up for low-value fixed assets with purchase costs of above EUR 150 up to EUR 1,000, which will be depreciated on a straight-line basis over five years.

The statutory write-ups were made for all assets in accordance with Section 280 (1) of the German Commercial Code (HGB). Liabilities are shown at repayment value.

The foreign currency conversion was performed with regard to Section 340 h of the German Commercial Code (HGB).

Provisions for pensions and similar commitments were valued in accordance with actuarial principles on the basis of "Richttafeln 2005 G" (Mortality and Disability Tables) by Dr Klaus Heubeck. For KfW IPEX-Bank the entry age normal method was used, with interest rates for accounting purposes of 3 % and 6 %, respectively. The other provisions are shown at their expected recourse value.

Sufficient allowance has been made for risks arising from lending business. The risk provision portfolio for lending business shown in the balance sheet is made up of specific loan loss provisions affecting net income (the amount corresponds to the difference between the carrying amount of the loan, the present value of the expected returns from interest and repayments as well as the payment streams from securities) and portfolio loan loss provisions (based on expected loss model calculations) for loans and advances without specific loan loss provisions. In addition, risk provisions were formed for contingent liabilities and irrevocable loan commitments both for individually established risks (specific loan loss provisions) as well as for impairments that have not yet been identified individually.

Prepaid expenses and deferred charges and deferred income were established for expenses before the balance sheet date and income before the balance sheet date, to the extent that they represent expenditure or revenue for a specific period after the balance sheet date.

MATERIAL DIFFERENCES BETWEEN IFRSS AND THE GERMAN COMMERCIAL CODE (HGB)

The accounting policies of the German Commercial Code (HGB) used in the financial statements of KfW IPEX-Bank differ from the IFRS regulations used in the consolidated financial statements of KfW Bankengruppe. The following material differences apply:

According to the accounting regulations of the German Commercial Code (HGB), derivatives used for hedging market risks are never valued and shown in the balance sheet. Instead, their market values are disclosed in the notes. In comparison to this, IAS 39 requires derivatives to be valued at fair value through profit or loss, even if they are part of hedging relationships. If derivatives are demonstrably used for hedging, IAS 39 allows for hedge accounting under certain circumstances. This makes it possible to value underlying transactions hedged by derivatives at their fair value through profit or loss, and thereby compensate for the earnings fluctuations from hedging derivatives to a large extent.

In contrast to the financial statements of KfW IPEX-Bank prepared according to the German Commercial Code (HGB), under IFRSs pension provisions are valued using the projected unit credit method with regard to future salary trends and the corridor regulation (IAS 19).

According to IAS 39, all the fixed-income securities of KfW IPEX-Bank would have to be assigned to the "available-for-sale" category. Changes to the fair value of the securities assigned to this category are shown directly in a separate equity item.

Amortisation of premiums and discounts as well as processing fees with an interest character is performed using the effective interest method under IFRSs. Processing fees not to be amortised according to the effective interest method are collected in the commission earned.

In the annual financial statements prepared by KfW IPEX-Bank in accordance with the German Commercial Code (HGB), on the other hand, premiums and discounts are amortised on a linear basis, and processing fees impact income at the time of collection.

In accordance with Section 248 (2) of the German Commercial Code (HGB), self-constructed assets of the fixed assets are not capitalised at conversion cost. This is different from the requirement in IAS 38.

GROUP AFFILIATION

No consolidated financial statements are to be prepared. KfW IPEX-Bank GmbH is included in the consolidated financial statements of KfW Bankengruppe, Frankfurt am Main. The IFRS-compliant consolidated financial statements will be published in German in the electronic edition of the Federal Gazette *(Bundesanzeiger)*.

NOTES ON THE ASSETS

Loans and advances to banks and customers

Remaining term structure of the loans and advances

	Due on demand	Maturity				Pro rata interest	Total
		Up to 3 months	More than 3 months to 1 year	More than 1 year to 5 years	More than 5 years		
	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands
Loans and advances to banks	229,865	917,895	350,092	184,786	28,860	41,990	1,753,488
(as at 31 Dec. 2007)	*487,784*	*913,968*	*102,194*	*192,843*	*5,593*	*16,933*	*1,719,315*
Loans and advances to customers	0	792,832	2,694,082	10,889,310	7,696,949	156,108	22,229,281
(as at 31 Dec. 2007)	*0*	*495,260*	*1,633,471*	*6,895,437*	*5,288,896*	*102,857*	*14,415,921*
Total	229,865	1,710,727	3,044,174	11,074,096	7,725,809	198,098	23,982,769
(as at 31 Dec. 2007)	*487,784*	*1,409,228*	*1,735,665*	*7,088,280*	*5,294,489*	*119,790*	*16,135,236*
in %	1.0	7.1	12.7	46.2	32.2	0.8	100.0

	Loans and advances to		
	banks	customers	Total
	EUR in thousands	EUR in thousands	EUR in thousands
of which to:			
Shareholders	0	0	0
Affiliated enterprises	1,062,149	0	1,062,149
Enterprises, in which KfW IPEX-Bank holds a stake	0	42,195	42,195
Subordinated assets	0	114,966	114,966

Bonds and other fixed-income securities

Listed/marketable securities

	31 Dec. 2008	31 Dec. 2007
	EUR in thousands	EUR in thousands
Listed securities	3,704,476	1,954,505
Unlisted securities	134,537	11,428
Marketable securities	3,839,013	1,965,933

The "Bonds and other fixed-income securities" item does not contain any securities to affiliated enterprises or companies with whom an investment relationship exists. The portfolio includes securities amounting to EUR 935,545 thousand which fall due during the year following the balance sheet date.

Fixed assets

Assets analysis

							Changes[1]	Residual book value	Residual book value
							2008	31 Jan. 2008	31 Dec. 2007
							EUR in thousands	EUR in thousands	EUR in thousands
Investments							27,129	72,388	45,259
Securities treated as fixed assets							376,226	501,472	125,246
Sum							403,355	573,860	170,505

	Purchase/ production costs[2]	Additions	Disposals	Transfers	Alloca-tions		Depreciation/ Impairment	Residual book value	Residual book value
						Total	2008	31 Jan. 2008	31 Dec. 2007
	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands
Intangible assets	45	1	0	0	0	39	2	7	8
Property, plant and equipment[2]	1,072	170	0	0	0	557	207	685	721
Sum	1,117	171	0	0	0	596	209	692	729
Total								574,552	171,234

[1] Including exchange rate changes
[2] Of which as at 31 December 2008: - total value of plant and equipment EUR 685 thousand
- total value of land and buildings used for the bank's activities EUR 0 thousand

Bonds and other fixed-income securities intended as a permanent part of business operations and so in principle held until maturity, have been included with the securities treated as fixed assets. The valuation was performed according to the moderate lower of cost or market principle; as a result, write-downs amounting to EUR 18.6 million could be avoided.

The book value of the marketable securities not valued at the lower of cost or market is EUR 243.8 million. This includes financial assets, whose book value of EUR 192.5 million was EUR 4.8 million higher than the fair value of EUR 187.7 million.

Disclosures on shareholdings

Figures in accordance with Section 285 (11) of the German Commercial Code (HGB)

Name and domicile of company	Capital share	Equity	Net income for the year
	in %	EUR in thousands	EUR in thousands
1. aucip.automotive cluster investment platform GmbH & Co. KG	24.8	95	1
2. Railpool GmbH	50.0	[1]	[1]
3. Railpool Holding GmbH & Co. KG	50.0	[1]	[1]
	in %	TUSD	TUSD
4. Canas Leasing Ltd.	50.0	[1]	[1]
5. Freighter Leasing S.A.	22.2	16,417	1,120

[1] The company is in the start-up phase, there are not yet any financial statements available

The investment in Hoch-Tief Airport Capital GmbH & Co KGaA, Essen, amounting to EUR 19,440 thousand must be qualified as an investment in a large corporation in accordance with Section 340 a (4) No. 2 of the German Commercial Code (HGB).

The marketable securities amounting to EUR 19,440 thousand contained in the item "Investments" are not listed.

Assets held in trust

	31 Dec. 2008		31 Dec. 2007	Change
	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands
Loans and advances to banks				
a) Due on demand	0		0	0
b) Other loans and advances	1,831,578	1,831,578	2,045,998	–214,420
Loans and advances to customers		23,420,233	24,675,095	–1,254,862
Investments		10,378	9,701	677
Shares		25,971	51,109	–25,138
Total		25,288,160	26,781,903	–1,493,742

The assets held in trust largely incorporate the business from the E&P business unit of KfW that is administered on a trust basis by KfW IPEX-Bank GmbH. The decline in trust assets is due to repayments.

OTHER ASSETS

The other assets chiefly relate to loans and advances to the financial authorities resulting from tax prepayments and tax refund claims (EUR 44,275 thousand) as well as the balancing item for foreign currency translation of derivatives (EUR 43,241 thousand) used for controlling the foreign currency position.

PREPAID EXPENSES AND DEFERRED CHARGES

Prepaid expenses and deferred charges particularly include upfront interest payments from swaps amounting to EUR 13,135 thousand and accrued Hermes fees amounting to EUR 5,470 thousand.

NOTES ON LIABILITIES

Liabilities to banks and customers

Maturities structure of liabilities

	Due on demand	Maturity				Pro rata interest	Total
		With agreed term or period of notice					
		Up to 3 months	More than 3 months to 1 year	More than 1 year to 5 years	More than 5 years		
	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands
Liabilities to banks	75,345	4,921,029	3,022,929	11,221,584	4,199,272	299,875	23,740,034
(as at 31 Dec. 2007)	*12,034*	*1,284,791*	*3,565,924*	*6,522,563*	*3,179,395*	*128,822*	*14,693,529*
Liabilities to customers – Other liabilities	0	137,585	642	5.129	12,122	10,453	165,931
(as at 31 Dec. 2007)	*0*	*12,119*	*0*	*603*	*152*	*2,201*	*15,075*
Total	75,345	5,058,614	3,023,571	11,226,713	4,211,394	310,328	23,905,965
(as at 31 Dec. 2007)	*12,034*	*1,296,910*	*3,565,924*	*6,523,166*	*3,179,547*	*131,023*	*14,708,604*
in %	0.3	21.2	12.6	47.0	17.6	1.3	100.0

	Liabilities to		
	banks	customers	Total
	EUR in thousands	EUR in thousands	EUR in thousands
of which to:			
Shareholders	0	0	0
Affiliated enterprises	23,728,445	0	23,728,445
Enterprises, in which KfW IPEX-Bank holds a stake	0	3,477	3,477

Liabilities held in trust

	31 Dec. 2008		31 Dec. 2007	Change
	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands
Liabilities to banks				
a) Due on demand	0		0	0
b) With agreed term or period of notice	25,283,177	25,283,177	26,780,197	−1,497,020
Liabilities to customers				
a) Savings deposits		0		0
b) Other liabilities				
ba) Due on demand	0		0	0
bb) With agreed term or period of notice	4,983	4,983	1,705	3,278
Total		25,288,160	26,781,903	−1,493,742

OTHER LIABILITIES

Other liabilities chiefly contain pro rata interest for subordinated liabilities amounting to EUR 5,794 thousand as well as liabilities to the financial authorities for income tax payable amounting to EUR 1,288 thousand.

SUBORDINATED LIABILITIES

KfW has granted KfW IPEX-Bank GmbH subordinated loans amounting to USD 1,740 million (EUR 1,250 million) in total, with the following contractual conditions:

	Amount in millions	Currency	Interest rate	Maturity date
1.	500	USD	3-month USD LIBOR + 0.85 % p.a., premium increases by 0.5 % to + 1.35 % p.a. if IPEX does not cancel the loan as per 31 January 2013	31 Dec. 2017
2.	500	USD	3-month USD LIBOR + 0.85 % p.a.	31 Dec. 2017
3.	500	USD	3-month USD LIBOR + 0.85 % p.a., premium increases by 0.5 % to + 1.35 % p.a. if IPEX does not cancel the loan as per 28 February 2015	31 Dec. 2019
4.	240	USD	3-month USD LIBOR + 3.2 % p.a., premium increases by 1.0 % to + 4.2 % p.a. if IPEX does not cancel the loan as per 30 October 2013	24 Oct. 2018

Interest payments are made quarterly at different interest payment dates. KfW IPEX-Bank is not obligated to repay the subordinated loans ahead of schedule. The conditions for subordination of these funds correspond to the requirements of Section 10 (5 a) of the German Banking Act (KWG). Interest expenses for subordinated loans in 2008 amounted to EUR 47.5 million.

The subordinated liabilities are exclusively towards KfW as an affiliated enterprise.

PROVISIONS

As well as the provisions for pensions and similar commitments amounting to EUR 42,088 thousand in total, additional provisions amounting to EUR 37,358 thousand are shown as at 31 December 2008. These include EUR 23,643 thousand for irrevocable loan commitments and contingent liabilities.

DEFERRED INCOME

The deferred income chiefly comprises discounts from receivables purchases amounting to EUR 47,505 thousand as well as upfront interest payments from swaps that have been received but do not yet impact income amounting to EUR 3,273 thousand.

OTHER REQUIRED DISCLOSURES ON THE LIABILITIES AND EQUITY

CONTINGENT LIABILITIES

Guarantees

	31 Dec. 2008	31 Dec. 2007
	EUR in thousands	EUR in thousands
Power, Renewables and Water	527,907	222,278
Manufacturing Industries, Retail, Health	374,718	246,148
Rail and Road	355,690	38,755
Shipping	264,622	156,020
Basic Industries	215,308	93,341
Financial Institutions, Trade & Commodity Finance	135,485	n. a.
Ports, Airports, Real Estate, Construction Industry/PPP	66,051	62,505
Telecommunications and Media	59,802	7,572
Leveraged Finance, Mezzanine, Equity	54,754	n. a.
Aviation	0	38,614
Total	2,054,337	865,233

The total amount of liabilities under guarantees amounting to EUR 2,054.3 million includes credit default swaps amounting to EUR 40.0 million in which KfW IPEX-Bank is the protection seller. The guarantees with new values set in 2008 amount to EUR 1,384.8 million. These are offset by disposals totalling EUR 195.7 million.

OTHER LIABILITIES

Irrevocable loan commitments

	31 Dec. 2008			31 Dec. 2007		
	Cash loans	Guarantees	Total	Cash loans	Guarantees	Total
	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands
Shipping	2,620,911	187,686	**2,808,597**	3,840,412	109,144	**3,949,556**
Basic Industries	814,474	194,688	**1,009,162**	1,046,667	147,592	**1,194,259**
Manufacturing Industries, Retail, Health	1,153,038	110,182	**1,263,220**	1,125,402	45,743	**1,171,145**
Power, Renewables and Water	818,572	113,256	**931,828**	998,139	79,060	**1,077,199**
Rail and Road	529,928	213,078	**743,006**	785,541	27,304	**812,845**
Aviation	607,174	1,117	**608,291**	787,723	4,599	**792,322**
Airports and Ports, Construction Industries	275,663	181,442	**457,105**	486,993	46,944	**533,937**
Telecommunications and Media	323,819	8,825	**332,644**	185,762	14,968	**200,730**
Financial Institutions, Trade & Commodity Finance	10,189	1,131	**11,320**	n. a.	n. a.	**n. a.**
Leveraged Finance, Mezzanine, Equity	172,485	10,491	**182,976**	n. a.	n. a.	**n. a.**
Total	7,326,253	1,021,896	8,348,149	9,256,639	475,354	9,731,993

Irrevocable loan commitments amounting to EUR 8,348.1 million are accounted for by EUR 7,326.3 million of cash loans and EUR 1,021.9 million of guarantees.

REQUIRED DISCLOSURES ON THE INCOME STATEMENT
GEOGRAPHICAL MARKETS

No geographical breakdown of the total amounts of revenue items according to Section 34 (2) No. 1 of the Ordinance Regarding the Accounting System for Banks (RechKredV) has been made as at 31 December 2008. The branch founded in London on 1 October 2008 was in the start-up phase during the fiscal year. No operative business was conducted. Furthermore, KfW IPEX-Bank has a central sales organisation without a regional structure.

OTHER OPERATING INCOME

Other operating income amounting to EUR 1.4 million chiefly relates to revenue for services provided to KfW amounting to EUR 0.6 million as well as reversals of provisions amounting to EUR 0.4 million.

TAXES ON INCOME

The item of taxes on income is made up of corporate income tax (EUR 849 thousand), a solidarity surcharge (EUR 46 thousand) as well as trade tax (EUR 3,882 thousand).

OTHER REQUIRED DISCLOSURES

ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCY

Assets and liabilities denominated in foreign currency as well as cash transactions that were not settled by the balance sheet date were converted into euros at the foreign exchange rates applicable as at 31 December 2008.

Expenses and income resulting from currency conversion have been included in the net earnings on financial transactions; the imparity principle *(Imparitätsprinzip)* has been observed.

Forward transactions were converted with due observance of the regulations on special cover or cover in the same currency. There were no effects from these on the income statement.

As at 31 December 2008 total assets and liabilites denominated in foreign currencies were each EUR 26.8 billion, converted in accordance with Section 340 h (1) of the German Commercial Code (HGB) (assets and liabilities held in trust account for EUR 14.0 billion of these in each case).

OTHER FINANCIAL LIABILITIES

Total payment obligations amounting to EUR 72.5 million arise of equity finance.

DERIVATIVES REPORTING

KfW IPEX-Bank uses the following forward transactions or derivative products, mainly to hedge against the risk of changes in interest rates and exchange rates:

1. Interest rate-related forward transactions/ derivative products
- Interest rate swaps

2. Currency-related forward transactions/ derivative products
- Cross-currency swaps
- FX swaps
- Forward exchange transactions

3. Credit derivatives
- Credit default swaps

Interest rate- and currency-related derivatives are used for hedging purposes. The ongoing results from swap transactions are accrued on a pro rata basis in the respective period.

Credit default swaps in which KfW IPEX-Bank acts as protection seller are included in the balance sheet at their nominal value as contingent liabilities.

The following presentation has been adjusted to meet the requirements of Section 285 No. 18 of the German Commercial Code (HGB), and discloses market values for all contract types based on calculation using the market valuation method. It discloses the positive and negative fair values of the derivative positions as at 31 December 2008.

Derivative transactions – volumes

	Nominal values		Fair values positive	Fair values negative
	31 Dec. 2008	31 Dec. 2007	31 Dec. 2008	31 Dec. 2008
	EUR in millions	EUR in millions	EUR in millions	EUR in millions
Contracts with interest rate risks				
Interest rate swaps	7,481	3,327	104	346
Total	**7,481**	**3,327**	**104**	**346**
Contracts with currency risks				
Cross-currency swaps	270	236	52	8
FX swaps	39	3	2	1
Forward exchange swaps	109	121	3	3
Total	**418**	**360**	**57**	**12**
Credit derivatives	40	0	0	2
Total	7,939	3,687	161	360

Derivative transactions – maturity

	Interest rate risks		Currency risks		Credit derivatives	
	31 Dec. 2008	31 Dec. 2007	31 Dec. 2008	31 Dec. 2007	31 Dec. 2008	31 Dec. 2007
	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions
Maturity						
up to 3 months	95	22	42	63	0	0
more than 3 months to 1 year	567	212	207	31	0	0
more than 1 year to 5 years	3,798	1,699	107	204	40	0
more than 5 years	3,021	1,394	62	62	0	0
Total	7,481	3,327	418	360	40	0

Derivative transactions – counterparties

	Nominal values		Fair values positive	Fair values negative
	31 Dec. 2008	31 Dec. 2007	31 Dec. 2008	31 Dec. 2007
	EUR in millions	EUR in millions	EUR in millions	EUR in millions
Counterparties				
OECD banks	6,606	3,267	61	359
Other counterparties	1,333	420	100	1
Total	7,939	3,687	161	360

LOANS IN THE NAME OF THIRD PARTIES AND FOR THIRD-PARTY ACCOUNT

Loans in the name of third parties and for third-party account (administered loans) totalled EUR 5,089.3 million as at 31 December 2008. In addition, financial guarantees amounting to EUR 42.9 million were administered.

	31 Dec. 2008	31 Dec. 2007
	EUR in thousands	EUR in thousands
Competitive business	2,326,149	1,740,778
E&P promotional business	2,763,151	2,304,655
Total	5,089,300	4,045,433

These loans relate to syndicated loans in which KfW IPEX-Bank handles the accounting for the loans as the syndicate leader, for the account of the other syndicate members.

PERSONNEL

The average number of staff, not including trainees and the Board of Managing Directors (but including temporary staff) is calculated from the figures at quarter endings during the 2008 fiscal year.

	2008
Female employees	219
Male employees	269
Staff not covered by collective agreements	391
Staff covered by collective agreements	97
Total	488

COMPENSATION AND LOANS TO MEMBERS OF THE BOARD OF MANAGING DIRECTORS AND THE BOARD OF SUPERVISORY DIRECTORS

The total compensation paid to members of the Board of Managing Directors for the 2008 fiscal year was EUR 1,331.9 thousand. Details on the compensation of the members of the Board of Managing Directors for the 2008 fiscal year are given in the following table:

Annual compensation

	Monetary compensation	Other compensation	Total
	EUR in thousands	EUR in thousands	EUR in thousands
Heinrich Heims (Speaker of the Board of Managing Directors)	327.5	3.1	330.6
Michael Ebert	327.5	7.4	334.9
Christiane Laibach (since 21 April 2008)	235.0	0.6	235.6
Christian K. Murach[1] (seat dormant since 21 April 2008)	94.6	3.4	98.0
Markus Scheer	327.5	5.3	332.8
Total	1,312.1	19.8	1,331.9

[1] pro rata compensation

The total compensation paid to members of the Board of Supervisory Directors was EUR 198 thousand. In addition, attendance fees amounting to EUR 64 thousand were paid.

The total amount of loans to members of the Board of Managing Directors amounted to EUR 5 thousand as at 31 December 2008. The interest rates are between 2 % and 5 % p.a.

MANDATES HELD BY STATUTORY REPRESENTATIVES OR OTHER EMPLOYEES ON THE SUPERVISORY BOARDS OF MAJOR CORPORATIONS (AS AT 31 DECEMBER 2008)

Heinrich Heims
ArcelorMittal Eisenhüttenstadt GmbH, Eisenhüttenstadt
Georgsmarienhütte Holding GmbH, Georgsmarienhütte

Christian K. Murach
Galaxy S.a.r.L., Luxembourg (deputy member of the Supervisory Board)

Gisela von Krosigk
Galaxy S.a.r.L., Luxembourg

BOARD OF SUPERVISORY DIRECTORS

Dr Norbert Kloppenburg
(Member of the Managing Board of KfW Bankengruppe)
(Chairman of the Board of Supervisory Directors)

Dr Günther Bräunig
(Member of the Managing Board of KfW Bankengruppe)
since 1 November 2008

Wolfgang Kroh
(Member of the Managing Board of KfW Bankengruppe)

Ingrid Matthäus-Maier
(Former Speaker of the Managing Board of KfW Bankengruppe)
until 30 September 2008

Werner Gatzer
(Secretary of State, Federal Ministry of Finance)
since 27 November 2008

Dr Axel Nawrath
(Secretary of State, Federal Ministry of Finance)
until 22 October 2008

Dr Bernd Pfaffenbach
(Secretary of State, Federal Ministry of Economics and Technology)

Dr Jürgen Rupp
(Member of the Managing Board of RAG Aktiengesellschaft)

Karl-Heinz Stupperich
(Chairman of the Board of Supervisory Directors of GWE/Gesellschaft für wirtschaftliche Energieversorgung)

Kurt F. Viermetz
(Vice Chairman, JP Morgan Group, New York, retired)

BOARD OF MANAGING DIRECTORS

Heinrich Heims,
Steinbach (Taunus)
(Speaker of the Board of Managing Directors)

Michael Ebert,
Mainz

Christiane Laibach,
Frankfurt am Main
since 21 April 2008

Christian K. Murach,
Sulzbach (Taunus)
Operative activity as member of the Board of Managing Directors
was dormant from 21 April to 31 December 2008

Markus Scheer,
Hofheim am Taunus

Frankfurt am Main, 24 February 2009

Michael Ebert

Christiane Laibach

Heinrich Heims
(Speaker)

Christian K. Murach

Markus Scheer

AUDITOR'S REPORT

Based on the final results of our audit we issued the following unqualified auditor's report on 3 March 2009:

Auditor's Report

We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system and the management report of the KfW IPEX-Bank GmbH, Frankfurt am Main, for the business year from 1 January to 31 December 2008. The maintenance of the books and records and the preparation of the financial statements and management report in accordance with German commercial law and the supplementary provisions of the articles of incorporation are the responsibility of the Board of Managing Directors of KfW IPEX-Bank GmbH. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system and the management report, based on our audit.

We conducted our audit of the annual financial statements in accordance with § (Article) 317 HGB (*"Handelsgesetzbuch"*: "German Commercial Code") and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with (German) principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of KfW IPEX-Bank GmbH and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the bank's Board of Managing Directors, as well as evaluating the overall presentation of the annual financial statements and the management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the findings of our audit, the annual financial statements comply with the legal requirements and the supplementary provisions of the articles of incorporation and give a true and fair view of the net assets, financial position and results of operations of KfW IPEX-Bank GmbH in accordance with (German) principles of proper accounting. The management report is consistent with the annual financial statements and as a whole provides a suitable view of the KfW IPEX-Bank GmbH's position and suitably presents the opportunities and risks of future development.

Frankfurt am Main, 3 March 2009

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Christoph Theobald	ppa. **Björn Grunwald**
(German Public Auditor)	(German Public Auditor)

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