Annual Report 2009

kfw
IPEX-BANK

2009

Volume of lending of the International Project and Export Finance business unit

	2009	2008
Volume of lending of the business unit[1] – by business sector	EUR in billions	EUR in billions
Shipping	14.0	14.6
Power, Renewables and Water	10.5	11.0
Rail and Road	8.1	9.0
Basic Industries	7.9	8.5
Aviation	7.3	8.3
Manufacturing Industries, Retail, Health	6.5	6.8
Ports, Airports, Construction Industry/PPP	4.1	4.1
Telecommunications, Media	2.4	2.7
Financial Institutions, Trade & Commodity Finance	1.6	1.5
Leveraged Finance, Mezzanine, Equity	1.0	1.2
Total	63.3	67.5

[1] managed by KfW IPEX-Bank
Differences in totals due to rounding

KfW IPEX-Bank GmbH key figures

	2009	2008
Balance sheet figures of KfW IPEX-Bank GmbH	EUR in billions	EUR in billions
Total assets	48.2	53.3
Volume of lending	31.5	34.4
Contingent liabilities	2.3	2.1
Irrevocable loan commitments	6.8	8.3
Assets held in trust	22.6	25.3
Volume of business (total assets, contingent liabilities, irrevocable loan commitments)	57.2	63.7
Equity	2.4	2.6
Equity ratio (in %)	5.0	4.9
Results of KfW IPEX-Bank GmbH	EUR in millions	EUR in millions
Operating income before risk provisions/valuations	321	240
Risk provisions and valuations	–467	–230
Net income/Net loss for the year	–140	5
Balance sheet loss	–85	0
Result from ordinary activities (before taxes on income) in Project and Export Finance business unit	*23*	*169*
Number of employees of KfW IPEX-Bank GmbH	521	488

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 project and export financiers. Around the world. Where there is a need for German exports, where infrastructure is produced and where climate and environmental protection projects are implemented. Sound business ideas deserve special support so that they can transcend borders and limitations. We are the original export bank and stand by the German export economy – out of conviction.

KFW IPEX-BANK

KFW IPEX-Bank 2009

Dear Readers

2009 was a truly challenging year – both for the global economy and for KfW IPEX-Bank. As a subsidiary of KfW Bankengruppe, we had a particular responsibility this year to meet the expectations of our customers in the export industry as well as fulfil political and social demands – and we were very successful.

2009 was a very difficult year – not just for us as a commercial bank and specialised financier but also for our customers. Yet thanks to our stable business model and the experience and market expertise of our employees, we mastered these challenges effectively.

With tight market conditions, we deployed our resources – both our equity and our employees – in a very targeted manner. The capital increase in early 2009 gave us the scope to plan for the longer term, even during the crisis. One of our key objectives was to provide intensive support to our existing customers. Once again we demonstrated that even in challenging times we assist and support our customers as a reliable financial partner, helping to strengthen market positions, safeguard companies and secure jobs.

We also managed to meet public expectations since as a specialised bank for international project and export finance we pave the way for German and European industries to secure and expand their competitive positions on the international markets. With a new business volume of EUR 8.9 billion, we made significant contributions to supporting the export economy as well as the promotional capacity and international reputation of KfW, while also facilitating the use of federal instruments to promote exports.

Alongside our substantial business achievements, we have also implemented major in-house changes. We completed the partial realignment of our organisational structure initiated in 2008, and at just the right time. Thus, in what was a very difficult year we were able to further optimise the support of our customers from a single source and simultaneously augment our risk management activities.

Looking back, we believe we achieved a very respectable performance in the challenging year of 2009. The confirmation of our excellent ratings of AA and Aa3 underlines this view.

Solid volume of new business totalling EUR 8.9 billion makes important contribution to safeguarding jobs and businesses.

With a new business volume of EUR 8.9 billion, the results of the International Project and Export Finance business unit, for which we are responsible in the KfW Group, presented a positive picture and were within the targeted range for 2009. The share of promotional business on the balance sheet of KfW totalled EUR 4.3 billion, while we recorded EUR 4.6 billion on the balance sheet of the legally independent KfW IPEX-Bank GmbH.

Given the significantly tougher macroeconomic climate, we are satisfied with this result. We focused on continuing existing projects as well as completing projects already underway. In our new business we concentrated on achieving good revenue and risk structures. Income from interest and commissions as well as operating income significantly exceeded that of the previous year. Consequently, we are able to report a healthy operating result, before risk provisions, of EUR 575 million and EUR 321 million respectively for the entire business area and for KfW IPEX-Bank GmbH, which handles the market business of KfW.

Since we had to assume that the economic conditions for some of our customers would continue to remain difficult in 2010, we consciously strove to manage our business with foresight and in 2009 significantly raised our risk provisions on the previous year. This approach resulted in a balance sheet loss for KfW IPEX-Bank GmbH of EUR 85 million. However, despite the higher risk provisions we still managed to generate a modest EUR 23 million profit in 2009 from ordinary activities in our business area within the KfW Group.

Our focus: financing exports as well as infrastructure, environmental and climate protection projects.

Our shareholder, KfW, has supported this forward-looking precautionary approach, enabling us to continue to fulfil our mandate to support the German and European economies, even while the difficult economic period continued as expected. As a newly founded banking institution, KfW IPEX-Bank is subject to higher equity capital requirements in the first three years of its business operations, i. e. until the end of 2010. In view of both this regulatory requirement and the risk trends in the credit portfolio as a whole, we will continue to concentrate on low-risk and well-collateralised financing structures in our new business. In 2010 we expect similar levels of new commitments as in the reporting year. We will continue to focus on supporting the German and European export economies, financing infrastructure projects and means of transport such as aircraft, ships or locomotives, as well as supporting projects related to environmental and climate protection.

KfW IPEX-Bank is on stable footing in the market, draws on experiences attained during other difficult periods and will continuously and reliably devote its energies to improving the performance of the export economy – driven by the trust of our customers and the commitment of our employees. We extend our particular thanks to all of them for their dedication and confidence in us during the particularly challenging year 2009.

Christian K. Murach

Heinrich Heims
(Speaker)

Markus Scheer

Michael Ebert

Christiane Laibach

Close and Constructive Cooperation

The difficult Annual Report 2009 was characterised by trusting and close collaboration with the Board of Managing Directors. The Board of Supervisory Directors was kept informed of all major developments regarding KfW IPEX-Bank GmbH and continuously communicated with the Board of Managing Directors.

We regularly monitored and consulted with the Board of Managing Directors in its management of the company. We were involved in decisions of major importance for the company and granted our approval to the respective business transactions where required, after comprehensive consultation and examination.

In the 2009 financial year, a total of four regular meetings of the Board of Supervisory Directors were held. At the beginning of every meeting the Board of Managing Directors reported on current issues and plans for new business, before presenting the corresponding risk/performance report and the quarterly figures.

In the first meeting on 20 March 2009, we reviewed the annual financial statements for the previous financial year and approved the report of the Board of Supervisory Directors. We also focused on the results of the project for optimising the credit process, the results of the 2008 financial year and the current risk situation. In addition, we approved the report of the compliance officer, resolved to acquire shares in a limited company in Brazil for the purpose of establishing a representative office of KfW IPEX-Bank in São Paulo, and adopted an anticipatory resolution to borrow funds from a European promotional institution. Finally, we acknowledged the report of the Executive Committee.

In the meeting of 26 June 2009, we discussed the current performance and risk situation – especially in view of the current economic crisis and its impacts on the individual business sectors as well as the bank's economic and regulatory capital. We also debated various other special topics, presented the quarterly figures through 31 March 2009, and discussed the key points of the Accounting Law Modernisation Act *(Bilanzmodernisierungsgesetz, BilMoG)*.

In addition to the revenue and risk situation, the meeting on 24 September 2009 focused on business development, general conditions, the initial results of the new business planning for 2010 and the status of various other topics. Furthermore, we again adopted an anticipatory resolution on borrowing funds from a European promotional institution. The Chairman of the Board of Supervisory Directors also outlined the group-wide strategy process.

The meeting on 16 December 2009 was dominated by discussions on the risk situation of the company, focusing in particular on the shipping sector. In addition, the Board of Supervisory Directors discussed the risk strategy for the coming financial year, the earnings situation, the expected results for 2009 including risk provisions as well as the outlook for the future business strategy. The reports of the Audit Committee and the Loan Committee were discussed, and we also reached decisions on changing the rules of procedure for the Board of Supervisory Directors as well as the funding volume of KfW IPEX-Bank in the 2010 financial year.

There were various personnel changes in the Board of Supervisory Directors during the reporting year: Mr Wolfgang Kroh stepped down from his position on the Board of Supervisory Directors on 30 September 2009 and was replaced by Dr Ulrich Schröder on 1 October 2009. Following the decision made during the fourth meeting to reduce the size of the Board of Supervisory Directors, Mr Kurt F. Viermetz and Dr Günther Bräunig left the board at the end of the year.

The Executive Committee, the Loan Committee and the Audit Committee fulfilled their designated tasks during the financial year according to the rules and regulations of KfW IPEX-Bank. The Board of Supervisory Directors was regularly informed of the work of these committees.

The Audit Committee discussed the results of the financial statements audit in its meeting on 19 March 2010, and recommended that the Board of Supervisory Directors approve the annual financial statements and the management report. The discussion centred on the KPMG audit firm report (partial audit report II) covering the audit of the annual financial statements as at 31 December 2009, provided by the Board of Managing Directors on 26 January 2010, and the management report for Annual Report 2009. KPMG issued an unqualified audit opinion on 4 March 2010.

After the final examination by the Board of Supervisory Directors, the annual financial statements and the management report were approved. We also approved the result of the audit in our first regular meeting on 19 March 2010. We have presented the annual financial statements to the shareholder meeting for approval.

The Board of Supervisory Directors endorses the recommendation of the Board of Managing Directors to carry forward the balance sheet loss to the next period.

We would like to thank the Board of Managing Directors and all employees for their commitment and hard work in the difficult Annual Report 2009.

Frankfurt am Main, 19 March 2010

For the Board of Supervisory Directors

Dr Norbert Kloppenburg
Chairman

Construction site of Berlin Brandenburg International Airport – financed by KfW IPEX-Bank.

Built to last – Project and Export Finance of KfW IPEX-BANK

Export banker – Finance expert – Industry specialist:
Always focusing on the needs of its customers, KfW IPEX-Bank assembles tailored financing solutions. We support export companies in Germany and Europe, help to maintain and expand transport systems and infrastructure, and are committed to environmental and climate protection projects – worldwide.

Together with our customers, we open up the world

KfW IPEX-Bank – our name speaks for itself. Within KfW Bankengruppe, we are responsible for the International Project and Export Finance business area. We specialise in customised financing solutions to support the export economy in the interests of our customers, to develop economic and social infrastructure, and to support projects related to environmental and climate protection – and have been active for almost 60 years.

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

KfW IPEX-Bank supports the German and European economies in retaining the market positions they have achieved and in opening up new markets around the world. The continuous supply of credit to our customers – internationally oriented large and medium-sized companies as well as their customers of export goods – is the top priority of all our activities.

Our core products are medium and long-term financing solutions to maintain the competitiveness and support the internationalisation of German and European export companies. Our financing solutions help to sustain and expand economic and social infrastructure in Europe, develop and deploy means of mobility as well as ensure the supply of raw materials – and thus the production base of the German economy – while safeguarding companies and jobs as a result. We strengthen the position of German and European companies domestically and abroad and support the realisation of environmental and climate protection projects – worldwide.

Our fundamental focus is the export and investment interests of our customers, which is why we are a globally active lending institution with a long-term business approach. We also deliberately target markets in which access to financing is impaired. In this context, as a bank we feel a particular responsibility to also develop and implement export financing approaches for smaller companies. We respond to our customers' needs and work with them to create customised financing solutions – even in difficult times.

Our know-how and our range of financing products are crucial for the German and European economies, for large and small enterprises as well as the German Government.

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 credit rating compared to other banks, especially in these challenging times, derives from our established market position in international project and export finance. We have been operating worldwide in this field for almost 60 years. This good rating is also based on our bank's solid equity base and close involvement with the KfW Bankengruppe.

Our expertise is in demand

Our customers value the comprehensive industry expertise of KfW IPEX-Bank as well as its profound experience in the areas of export finance, financing of infrastructure projects and means of mobility as well as environmental and climate protection projects. We have specific and expert know-how in all of these fields, which is also reflected in the organisational structure of our bank.

KfW IPEX-Bank – finance expertise in many segments

Industry expertise, structuring expertise, political consulting – our skills are in demand.

Our employees are financing experts and proven specialists in their given markets. Our customers benefit from the resulting specialised industry know-how as well as our ability to gauge market trends and react accordingly.

In addition to this industry competence, KfW IPEX-Bank is distinguished by its international experience in structuring complex projects. Together with our customers we have already weathered some difficult periods and have frequently saved companies and secured jobs using customised solutions.

Our know-how as an experienced specialised financier is also in demand from the German Government. As part of KfW Bankengruppe, we provide support in the form of advisory services on selected financing topics, especially issues concerning German export policy and market instruments of the Federal Government to support exports, such as export guarantees.

KfW IPEX-Bank – the original export financier

Promoting the German export industry has been part of the statutory mission of KfW Bankengruppe since 1950. Beginning in the 1960s this promotion of exports evolved into export financing – along with the increasing use of market funds on commercial terms. As a subsidiary within the KfW Group, KfW IPEX-Bank is responsible for this traditional area of business. It supports the German and European economies with market-driven financing (market business), but also conducts promotional financing (promotional business) on a trust basis for KfW.

Firmly established at KfW: International Project and Export Finance.

As part of KfW Bankengruppe, KfW IPEX-Bank also adheres to its statutory mandate and mission: strengthening the German and European economies over the long term against the background of advancing globalisation and efforts to overcome the financial and economic crisis.

With its responsibility for the International Project and Export Finance business area, KfW IPEX-Bank makes a key contribution to the group net income of KfW and to safeguarding KfW's promotional capacity. In addition, we contribute significantly to shaping the international identity and reputation of KfW Bankengruppe and provide essential knowledge to the entire Group. We are a driving force, working closely and exchanging experiences with other business areas of KfW.

"KfW IPEX-Bank is the original export financier and is responsible for the International Project and Export Finance business area within KfW Bankengruppe."

Heinrich Heims, Speaker of the Board of Managing Directors

Partnership and customer orientation mean having an international presence

Optimal support provided onsite through our international network.

As an international project and export financier, it is vital for KfW IPEX-Bank to be represented in the local target markets of its customers. We see ourselves as a relationship bank, which requires close cooperation and proximity to provide optimal advice and support. That is why we have operations in the most important regions for the export industry. In recent years we have developed our own network of offices in the key economic and financial centres of the growth regions important to the German and European economies. In the 2009 reporting year we opened up a representative office in Abu Dhabi, since the Gulf region has traditionally been an important sales market for German plant engineering. Thanks to our network, we can provide intensive local support to our customers' export and investment projects, acquire new projects, and manage existing projects in an optimal manner. We are also able to rely worldwide on the country expertise and know-how of the entire KfW Bankengruppe.

KfW Bankengruppe locations outside Germany (KfW IPEX-Bank, KfW Entwicklungsbank and DEG)

- Countries where KfW IPEX-Bank, KfW Entwicklungsbank, DEG have operations
- Branch office of KfW IPEX-Bank
- Representative office of KfW IPEX-Bank

Customised and personal advice for large and small international customers.

Customer focus is the top priority for KfW IPEX-Bank. We provide our customers with intensive and tailored advice. Together we develop customised financing solutions for their export and investment projects, react flexibly to changes in financing needs using our industry and market expertise, and foster personal relationships locally – in difficult countries and during tense times. For us it is important to be a reliable and strong partner for our customers. We provide a high level of professional support to our major and larger medium-sized customers in the export industry with whom we have long-standing relationships. KfW IPEX-Bank is also increasingly offering long-term financing solutions to smaller exporters. We always ensure that all our financing transactions meet our standards for fulfilling a specific purpose and maintaining economic viability.

"Particularly in times of crisis, the range of financing products for smaller export projects of German and European exporters can contribute to safeguarding companies and securing jobs."

Matthias Wietbrock, First Vice President Financial Products Advisory

Small, but effective – financing for smaller-scale export projects

Smaller export transactions represent an important area of business for many small and medium-sized enterprises (SMEs) in Germany. While the majority of projects can be realised by means of payment terms on or around delivery, for clients in developing and emerging countries in particular it is often necessary to establish longer-term financing for the purchase price. Until now, long-term financing products have frequently not been available for such small-scale export projects. KfW IPEX-Bank intends to close this financing gap with the agreement it signed in December 2009 with Northstar Europe S.A. Northstar Europe grants buyer loans ranging from EUR 0.5 to 5 million with a term of up to five years. KfW IPEX-Bank now offers German exporters this type of financing in conjunction with Northstar. European deliveries can also be financed via Northstar Europe, thus providing a solution to meet an export finance need in Germany that also works throughout Europe. Having such a financing instrument, especially during the crisis, is a sales argument for our exporters that should not be underestimated.

Responsibility for sustainable environmental and social actions

High environmental and social standards characterise our financings.

As a significant project and export finance company and part of KfW Bankengruppe, we are aware of our special social responsibility that leads us to take appropriate steps for sustainable action. To us, sustainability means using available resources in a way that ensures the means of livelihood and quality of life of future generations. That is why we assess all projects we finance with regard to their environmental and social aspects.

To accomplish this, we defined ambitious guidelines in 2000 for assessing the environmental and social impacts of projects we finance. We also established a mandatory environmental management system. All of our rules and regulations for our operational business have been adapted several times to reflect current developments in international discussions on corporate social responsibility.

Our environmental standards are high: our assessments are based on the material standards of the World Bank as a minimum requirement. KfW IPEX-Bank has also adopted the Equator Principles, which are standards for environmental and social impact assessments of project financing that more than 60 banks around the world have agreed upon. We participate in the activities of this "community of learning" and through active and continuous dialogue are constantly gaining new insights to include in our assessments.

In principle, we only participate in the financing of projects that are consistent with the environmental laws of the investment country and internationally accepted standards.

"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 unacceptable environmental damage or cause more social harm than good".

Prof. Dr Werner Fassing, Sustainability Officer

Tailored financing solutions – from product specialists and industry experts

A broadly based product range with individually tailored collateral options.

KfW IPEX-Bank's core product is medium to long-term targeted finance for the exports and international investments of German and European companies.

We have a very diverse product range – tailored financing solutions with custom-made collateral are our speciality. We individually combine the financing instruments currently available on the credit market that are required to support the international business of our customers.

Our financing products range from classic, tied export loans and international project finance to differentiated financing models in various currencies. We also help to develop and implement hedging strategies and offer financial derivatives for active interest rate and currency management.

The individually customised collateral is an important feature of KfW IPEX-Bank's financing.

Collateral instruments that fit perfectly

- Export credit agencies (ECA cover)
- Investment guarantees of the Federal Republic
- Real collateral of mobile assets (ships, aircraft, etc.)
- Guarantee facilities of supranational institutions (IFIs = International Financial Institutions)
- Individual structures involving risk partners in third countries
- Classic collateral structures

Export finance – an engine of growth, especially in difficult times

German companies in particular hold a strong international position as exporters of goods and services. However, competition is intensifying and the current financial and economic crisis highlights the importance of exports as the backbone of the German economy. Creative solutions for export finance are required and are in demand, both by large internationally active companies and export-oriented medium-sized businesses. With its responsibility for KfW's International Project and Export Finance business area, KfW IPEX-Bank recognises its explicit obligation to reliably support the export projects of its customers in the long term.

Our customers have a comprehensive product spectrum at their disposal: from individual finance related to small export transactions and a term of up to 5 years, through long-term, tied financial loans with and without ECA cover, to loans under framework contracts. In the future we intend to promote the financing products designed to support smaller German and European export projects even more intensively.

Successfully supporting exports with diverse products and instruments.

For many years, we have also been supporting the export projects of German companies through our refinancing agreement with AKA Ausfuhrkredit Gesellschaft (AKA). This enables us to provide stable refinancing at favourable conditions to the German export banks working together in the AKA. Particularly in the current market climate, we are finding that the AKA is making intensive use of our refinancing offer.

To finance export projects in developing and industrialising countries, KfW Bankengruppe provides German businesses with funding from the KfW/ERP Export Fund at fixed interest rates governed by the OECD – also known as CIRR financing (CIRR = Commercial Interest Reference Rate). This occurs both via loans disbursed by KfW IPEX-Bank as well as by refinancing the CIRR loans extended by the AKA. In this way we are also able to make a substantial contribution to supporting the German export economy.

If required, export loans are guaranteed by state export credit agencies, or ECAs. We have strong, direct relationships with many European and non-European ECAs. These close contacts also enable single-source financing of export transactions based on deliveries from several countries, such as the multi-sourcing of German plant manufacturers which is steadily increasing in importance.

Merging interests: a fully integrated steel plant in India

Technologies from Germany and Europe are in demand in India to drive progress and economic growth. Thus KfW IPEX-Bank has been financing exports to India for years – particularly in the fields of power plants, renewable energies, aviation and steel. The New Delhi-based steel enterprise Bhushan Power & Steel is one of the leading steel producers in the country with seven production sites in four locations. To expand capacities in the Indian state of Orissa, KfW IPEX-Bank is financing among other things the delivery of plant components worth EUR 60 million, which are covered by Hermes. Exporters include SMS Siemag, Siemens and Linde. With this financing the Indian steel company also benefits from the KfW/ERP export financing programme which, by means of the CIRR rate, enables German export transactions to be financed at a favourable fixed interest rate.

Gigantic and green – the world's largest biogas plant in the German state of Mecklenburg-Western Pomerania

A project with great potential is taking shape north of Güstrow in Mecklenburg-Western Pomerania: spread over an area of 20 ha is the world's largest facility to use a specially-designed process to generate biogas, with the quality of natural gas, from regenerative raw materials such as corn, whole crop silage and grass clippings. EnviTec Biogas AG, Lohne, supplies essential components for this facility. The park was designed by NAWARO BioEnergie AG, Leipzig. The plan is to feed 46 million m3 of biogas into the public long-distance network each year, enough to supply a town of up to 50,000 inhabitants with a constant flow of environmentally-friendly energy.

The facility, with a total investment volume of roughly EUR 122 million, is being financed by bank loans and private investors. KfW IPEX-Bank structured the bank loans in the amount of almost EUR 80 million. Thus, we are not only supporting an energy project with great potential, we are also making a contribution to securing a future for local agricultural businesses and creating jobs in eastern Germany.

Project finance – realising ambitious plans

For decades, KfW IPEX-Bank has been granting loans for investment projects that specifically establish a project company to manage project realisation and operations. Before each loan is granted, we assess the technical and economic feasibility of a project, the collateral structure and the approvals from the competent authorities. A further prerequisite for granting a loan is compliance with international environmental and social standards.

For larger public infrastructure projects, such as those in rail and road transport, airport and seaport, energy supply and public building construction, public-private partnerships (PPP) or private finance initiatives (PFI) are the logical choice. In these models, private investors or operators work together closely with the public sector on financing the project. In this field we have developed extensive expertise that is valued by our German and European customers.

Asset finance – moving large projects forward

The goal of asset finance is to finance the production or operation of a specific asset. The loan is typically repaid with revenue generated by a specially established operating company under leasing or rental agreements.

KfW IPEX-Bank's financing solutions are characterised by their intelligent combination of different products and instruments. Classic financing of shipping, aircraft and rolling stock, including leasing models, is part of our everyday business.

We grant loans for financing leases as part of new or replacement investments in fixed assets. We also refinance leasing companies that lease mobile goods as part of so-called operating leases. In this highly dynamic product area we rely on partnerships with internationally experienced specialists. In certain cases we invest in other companies in order to be able to offer our customers access to attractive markets and comprehensive solutions for their specific financing requirements.

"The strategic investment in Railpool GmbH allows us to steadily expand our product range in the area of operating leases in order to offer suitable financing solutions to our customers in the liberalising railway market."

Wolfgang Reuß, First Vice President Rail and Road

Railpool – a new benchmark in the European leasing market for rail vehicles

The leasing company Railpool GmbH is an asset manager for rail vehicles founded in 2008. Railpool is pursuing a new concept in leasing trains that has already shown success with locomotives: vehicles used in goods and commuter rail travel are offered in a full service package, comprising regular maintenance and servicing as well as the insurance of the locomotives and trains. New approaches such as spare parts management round out the range of services that this already successful leasing company offers. KfW IPEX-Bank holds a 50% stake in Railpool GmbH and actively supports the expansion of this start-up enterprise.

KfW IPEX-Bank financing for both of the British offshore wind-parks, „Glens of Foudland“ and „Lynn and Inner Dowsing“, equipped with 74 Siemens wind turbines.

Robust and secure – strong performance despite rough conditions

In times of stormy weather, it pays to have your feet firmly on the ground and a strong engine to rely on. Thanks to forward-looking management and our highly motivated employees, KfW IPEX-Bank continued to steer a successful course through the turbulent year of 2009.

Favourable results after an extremely challenging year

2009 was a very difficult year: the market for international project and export finance was exceptionally tense, demand for financing was subdued given the financial and economic crisis, our existing customers demanded a high level of support, flexibility and perseverance, while in-house we made improvements regarding responsibilities towards our customers and risk management – overall, KfW IPEX-Bank performed very well.

The market climate for international project and export finance in 2009 was extremely difficult. The demand for financing has been muted since the end of 2008 due to companies scaling back their investment plans. The supply of loans on the banking market was also restricted. On average, the credit ratings of the portfolios of all lending banks have suffered due to the financial and economic crisis. Banks need more equity capital to support their portfolios, while adopting a correspondingly cautious approach for new business.

This has resulted in competition for financing structures with strong collateral. Only a small number of banks were prepared to arrange syndicate financing of medium and long-term projects. Compounding the situation was the fact that the international syndication market for transfers of credit risks between banks essentially came to a complete standstill.

For KfW IPEX-Bank, this troublesome market situation led to particular challenges in its existing portfolio, particularly for the raw material, automotive industry, aviation and merchant shipping sectors that had been weakened by the crisis.

Reliability in times of crisis

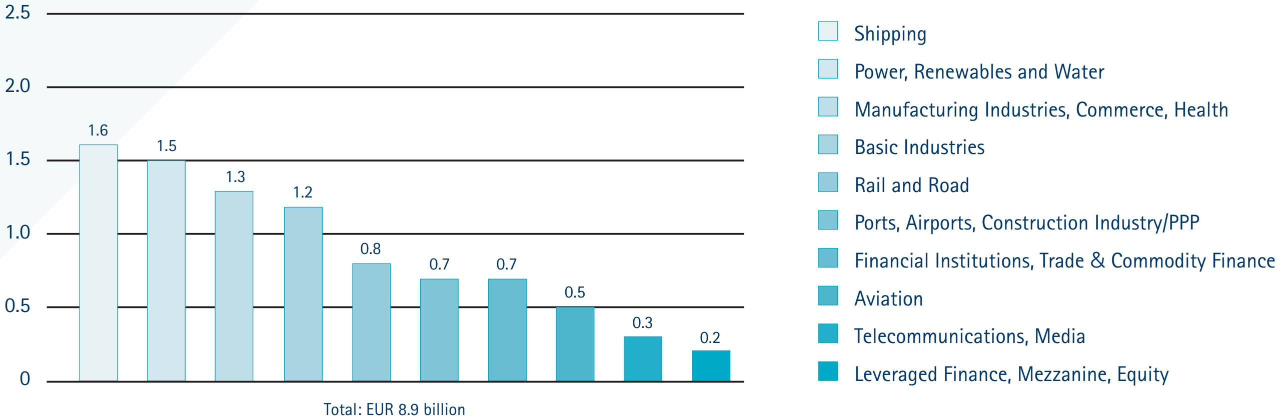
Despite the adverse economic climate, KfW IPEX-Bank managed to complete projects prepared in 2008 and secure ongoing commitments through continuous and intensive support of its customers. In 2009 we continued to support new investment projects and closely supported many customers through some extremely difficult times. Providing support to our existing customers was our number one priority, which involved advising them on arising problems and assisting them with customised solutions. In many cases we assisted our customers in restructuring their financing, thus making a contribution to safeguarding companies and securing jobs in a difficult market period.

Looking back over the past financial year, we can say that we achieved our objectives and fulfilled our role as a reliable financing partner to the German and European economies in the challenging year 2009.

Stable new business – managed carefully and deliberately

In 2009 we generated a solid volume of new business in our field of operations amounting to EUR 8.9 billion, which was within our targeted range. Although as expected this is much less than the exceptional year 2008, we succeeded in demonstrating to our customers and shareholders that despite the economic turmoil we remain on solid footing in the market, focusing on healthy revenue and risk structures. We recorded EUR 4.6 billion of the total volume of this business unit as market business in the balance sheet of KfW IPEX-Bank GmbH, and EUR 4.3 billion in the KfW balance sheet as promotional business acquired for KfW.

New commitments of the business unit – by business sector
EUR in billions



Given the unstable conditions in 2009, we managed our new business in a careful and deliberate manner. The overall financing volume of the bank was boosted in particular by the business sectors of Shipping, Power, Renewables and Water, Manufacturing Industries, Commerce, Health as well as Basic Industries. The high volume of new business in the Shipping sector was largely the result of financing in the field of maritime energy, such as offshore facilities in oil and gas production as well as feeder ships for such facilities. The other submarkets of the shipping sector played a more minor role for us in 2009. This primarily

"We greatly value the long-term cooperation and expertise of KfW IPEX-Bank. Without its support we would neither have been able to move into many new markets in recent years, nor continue employing a large number of our more than 700 employees."

Peter Sierk, Managing Director of Flensburger Schiffbau-Gesellschaft mbH

involved closing business deals from the previous year to facilitate the delivery of ships from German shipyards, which are all backed by valuable collateral.

In the Power, Renewables and Water sector, we focused a significant share of our financing on renewable energy projects and measures to increase energy efficiency.

Regional balance in new business

Since our business policy objective focuses on supporting the internationalisation process of the German and European economies, we operate on a global scale. The customers buying the goods and services of global exporters are dispersed around the globe – consequently, we finance the export projects of our customers in more than 100 countries.

As in 2008, Germany and the rest of Europe were again a major focus in 2009, with each accounting for approximately one-third of our loan portfolio. From a risk management point of view, this balanced, regional distribution maintains the stability of our business.

Breakdown of borrowers by region in 2009	Volume	Share
	EUR in billions	in %
Germany	3.0	34
Europe (excluding Germany)	3.6	40
Other regions	2.3	26
Total	8.9	100

The results in the various regions include financing from different business sectors. In Germany, for example, projects from the Power, Renewables and Water sector account for a large share. Here, in the new federal states for instance, we are financing the construction of the world's largest biogas plant (Mecklenburg-Western Pomerania) and the second largest photovoltaic plant (Brandenburg).

In Europe we were extremely active in the field of transport infrastructure where we co-arranged the financing of large European road PPPs for German construction companies. Projects from the Shipping business sector also contributed to the results, such as the financing of the conversion of a ferry into a special Danish ship for the offshore industry – a crucial contract for a German shipyard.

Once again, operations of the power and energy sector provide examples of our financing outside of Europe. For instance, a wind park was financed in Taiwan using wind energy converters from Germany. Financings provided by KfW IPEX-Bank also facilitated the construction of a state-of-the-art and energy-efficient gas and steam power plant with a seawater desalination plant in Abu Dhabi that included gas turbines supplied from Germany. As part of export finance, trade finance made up another large portion of our non-European business. For example, we collaborated with multilateral financial institutions (e.g. the Inter-American Development Bank) to support German and European imports of raw materials.

Germany is currently the world's second largest exporter and, as part of the state promotional bank KfW, we want to help ensure the success of the German export economy, safeguarding companies and securing jobs.

"One of our core tasks is supporting German and European infrastructure projects to improve transport, communication, social infrastructure and the supply networks for raw materials."

Holger Apel, First Vice President Basic Industries

Satisfactory results: a healthy operating profit allows higher risk provisioning

A positive result in KfW's International Project and Export Finance business area – ensured by KfW IPEX-Bank.

In the difficult financial year 2009, KfW IPEX-Bank was able to achieve good operational success in the International Project and Export Finance business area for which it is responsible within KfW. Our new business developed within the planned range, our existing business was stable, and income from interest and commissions as well as operating income were significantly higher than the previous year's figures. Therefore, we are able to report a healthy operating result before risk provisions for the entire business area as well as for the legally independent KfW IPEX-Bank GmbH.

We assume that our existing portfolio will remain under pressure in the coming years. Our experience and comprehensive industry expertise will certainly help to reduce the number and extent of events of default. However, in the current climate we have taken a conscious decision to act with foresight and therefore raised our risk provisions significantly in 2009 on the previous year's level.

Due to this higher risk provisioning, KfW IPEX-Bank GmbH recorded a balance sheet loss of EUR 85 million. However, this loss is compensated by positive effects on the KfW Group income statement. These are essentially the interest and commission income from the promotional business acquired on a trust basis for KfW as well as the refinancing revenue of KfW, from which we obtain funding at market conditions. Despite the necessary higher risk provisioning, overall the result from ordinary business activities in our business area was EUR 23 million before taxes.

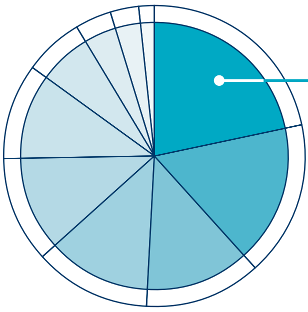
Broadly diversified and well secured

The loan portfolio of KfW IPEX-Bank is broadly diversified and covers the most important sectors of the German economy.

The financial and economic crisis also left its mark on our loan portfolio, affecting the merchant shipping segment – especially container shipping. However, our long experience with this cyclical industry led us to take precautions by ensuring that our portfolio is well collateralised as well as by raising our risk provisioning significantly.

A broadly based loan portfolio

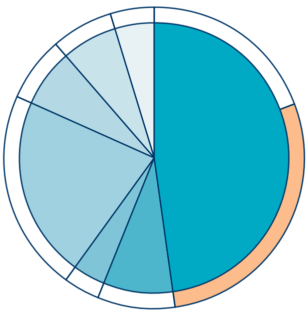
As at 31 Dec. 2009



Shipping	22.1 %
Power, Renewables and Water	16.6 %
Rail and Road	12.8 %
Basic Industries	12.5 %
Aviation	11.5 %
Manufacturing Industries, Retail, Health	10.3 %
Ports, Airports, Construction Industry/PPP	6.5 %
Telecommunications, Media	3.8 %
Financial Institutions and Trade Finance	2.5 %
Leveraged Finance, Mezzanine, Equity	1.6 %

Total credit volume: EUR 63.3 billion

Of which: Diversified shipping portfolio



Merchant shipping	47.9 %
Container shipping	28.5 %
Regional ferry transport	8.4 %
Maritime energy	3.9 %
Tourism	21.6 %
Ships ordered by governments	7.0 %
German shipyards	6.6 %
CIRR refinancing	4.7 %

Total shipping portfolio: EUR 14.0 billion

"Parts of the shipping industry are currently navigating turbulent waters – with our many years of experience, we are very familiar with such difficult market situations. Therefore we have ensured that our shipping portfolio is well collateralised and we remain active on the market to provide the best possible support to our customers."

Dr Carsten Wiebers, First Vice President Shipping

Partial realignment of the organisational structure

Optimising the organisational structure at the right time, while taking employee interests into consideration.

2009 was also an exciting year for our human resources department. In addition to a modest increase in personnel, our main focus was the partial realignment of our organisational structure. We have aligned our processes more consistently with the needs of our financing partners, while more strongly incorporating responsibility to our customers into our market divisions to ensure we can provide optimal support from a single source. At the same time we strengthened our risk management activities, which immediately proved its worth given the current market climate.

The project was carried out with the involvement of employees and the works council to ensure the necessary employee acceptance from the outset.

This reorganisation was accompanied by change management measures such as departmental workshops, team-building exercises, qualification programmes and various communication measures to familiarise employees with the changed topics.

This realigned organisational structure, which affected 300 employees, has been in effect with good results since 1 August 2009.

521

Key personnel figures

Number of employees:	*521*
Part-time employees:	*approx. 9 %*
Average age:	*approx. 37 years*
Female:	*46 %*
Male:	*54 %*
Women in management positions:	*20 %*
Number of severely disabled employees:	*1.34 %*

"We continued our dedicated human resources activities during the difficult Annual Report 2009. We take the interests of our employees seriously and support them in achieving a work-life balance."

Yvonne Harth, First Vice President Human Resources

New graduate trainee programmes

Ensuring a well-organised start and training young employees is very important to us. We therefore assessed our graduate trainee programmes based on the new job profiles to ensure they were up to date. As a result, we introduced two new programmes focusing on "Contract Management" and "Credit Analysis" along with the existing "Receivables Management" graduate trainee programme. During our 15-month programme, the trainees have the opportunity to contribute their ideas and specialised knowledge, and develop themselves individually. In targeted on and off-the-job training, they familiarise themselves with a variety of tasks, projects and loan processes.

Fairness

KfW IPEX-Bank has joined the "Fair Company" initiative of the 'Junge Karriere' magazine from Handelsblatt, a trade journal. We make sure that university graduates and interns are employed and treated fairly. More than 1,400 companies have already joined this initiative.

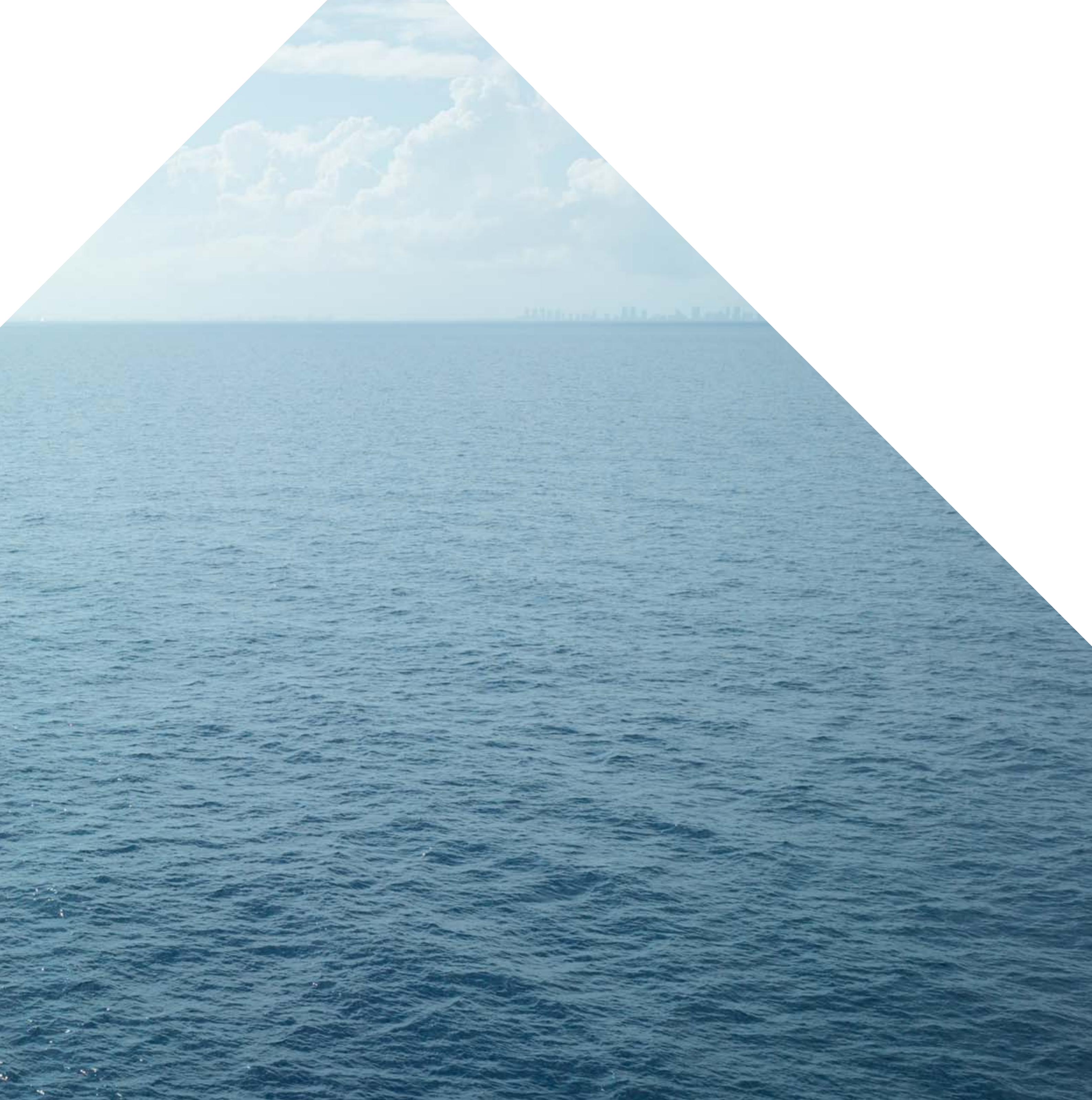
Close, constructive cooperation

Human resources work can only be successful when management and employees at all levels and in all areas work in close, constructive cooperation. The works council of KfW IPEX-Bank makes an essential contribution towards this goal. We would therefore like to thank the members of the works council and the representative of our disabled employees at this time. Above all we would like to thank our employees, whose commitment and dedication ensured that our bank successfully overcame the huge challenges posed by the difficult year 2009.

Cruise ship „Celebrity Solstice", built at the German shipyard Meyer on behalf of Royal Caribbean Cruises Ltd. – financed by KfW IPEX-Bank.

Annual Report 2009

KfW IPEX-Bank is responsible for the entire International Project and Export Finance business area of KfW. Its market business is recorded separately in the balance sheet.



Management Report of KfW IPEX-Bank GmbH

General economic conditions

Global economic trends in 2009 were shaped by the financial crisis and its implications for the real economy. After global economic activity had already contracted sharply in the last quarter of 2008, growth suffered yet another major setback in the first quarter of 2009. This went hand-in-hand with permanent turmoil on the financial markets. Stock market prices fell around the world in March to multi-year lows, while risk premiums on corporate bonds rose to exceedingly high levels due to the increasing expectations of credit defaults.

Nevertheless, during the spring of 2009 the measures introduced by governments and central banks to combat the financial crisis and the severe recession steadily began to have a stabilising effect. Tensions eased noticeably on the financial markets, which was evident inter alia in the falling risk premiums on the interbank markets and for corporate bonds, as well as in the rising prices on the stock and commodity markets.

A recovery was also observed in real economic indicators around the globe, and world trade clearly picked up again after the summer. In addition to the extensive monetary and fiscal stimulus measures, economic activity also gained momentum from the slowdown in stock depletion rates, which had previously been extremely high. However, the rates of global economic growth posted from the second quarter were far from sufficient to compensate for the sharp falls at the start of the year. Consequently, global GDP growth – which in 2008 still managed to rise by almost 3 % in real terms – contracted by a good 1% on average for 2009. In spite of the difficult global climate, some of the Asian emerging countries, first and foremost China and India, were still able to record impressive rates of growth in 2009. By contrast, the main industrialised countries suffered their worst declines in economic performance since the Great Depression of the 1930s. In addition to these economies, some countries in Central and Eastern Europe were particularly badly affected, and in certain cases the decline in real gross domestic product compared with the previous year reached double figures.

The global recession also left deep scars on Germany, which since the turn of the millennium has generated a large part of its real growth from net exports and is therefore economically particularly vulnerable to swings in external demand. At the peak of the financial and economic crisis during the winter months of 2008/2009, when demand from practically every single trading partner simultaneously collapsed, the downturn that had been simmering for six months suddenly boiled over into a rapid decline of economic output that was completely unparalleled in the history of the Federal Republic of Germany. In the opening quarter of 2009, gross domestic product, price and seasonally adjusted and adjusted for variations in the number of working days, eventually fell by almost 7 % on the same quarter in 2008, which pushed it back to end-2005 levels. This completely wiped out the – robust – growth of the three preceding years. Since then we have indeed seen some form of a recovery in economic output, which is attributable in particular to the monetary and fiscal stimulus measures deployed by governments around the world, including Germany, to curb the recession. However, the rates of global economic growth posted from the second quarter were far from adequate to compensate for the historic decline. Over the entire year, real GDP contracted by 5 %, despite the improvement as the year progressed. Economic growth was dragged down by both net exports as well as investments in plant and equipment, which were reduced on an enormous scale due to the massive under-utilisation of production capacities. By contrast, private and public consumption coupled with public sector construction – a core element of the economic stimulus programme – succeeded in cushioning the downturn.

Development of KfW IPEX-Bank GmbH

Within KfW Bankengruppe, KfW IPEX-Bank is responsible for international project and export finance (E&P) in the interests of the German and European economy. This task is derived from the statutory mission of KfW. The challenge with regard to new business in 2009 was to implement investment plans of the bank's customers that were already at an advanced planning stage and secure the completion of projects that were already underway. In its new business the bank focused on borrowers with good credit ratings and on providing finance for projects backed by good collateral. Additionally, it was important that KfW IPEX-Bank did not distance itself on an ad-hoc basis from long-standing customers. By restructuring commitments and securing liquidity for its customers in the medium term, it was able to help companies survive and retain jobs. In light of these general conditions, KfW IPEX-Bank proved to be a reliable financing partner for the German and European economy, with new business amounting to EUR 8.9 billion. This included promotional business totalling EUR 4.3 billion arranged on a trust basis for KfW.

The internal organisation of the bank was further improved. The "credit processes" project was launched in spring 2008 and implemented as planned in the summer of 2009. The risk pillar was greatly reinforced. The mandate of risk management in regard to active and ongoing portfolio analysis and assessment was significantly widened. The rating and analysis of counterparty risks were centralised in a separate department. These further developments also bring about an increase in the customer responsibilities of the front office departments, with acquisition and deal structuring now being jointly managed together with contract management.

After the legal separation of KfW IPEX-Bank, which has been independent since 1 January 2008, its capital was to be increased in stages. In the spring of 2009, the planned capital increase was carried out with the granting of profit participation capital amounting to USD 650 million through KfW Beteiligungsholding GmbH. Since the business model of the bank means that a high proportion of risk-weighted assets are in US dollars, the profit participation capital was provided in US dollars to cushion any fluctuations in the equity ratio on account of currency fluctuations. The bank's creditworthiness remains sound. Its initial ratings for 2008 were confirmed by Moody's in 2009 at Aa3 and raised by Standard & Poor's from AA- to AA.

The London branch successfully launched its operations in 2009. It supports infrastructure projects as well as German and European companies in order to position itself on the significant sales market of the United Kingdom. The presence on the main international target markets for the German and European export industry was reinforced with a new office in Abu Dhabi, one of the economic centres of the United Arab Emirates. For the German economy as a whole, and engineering and the energy sector in particular, the dynamic region of the Persian Gulf offers sales markets that are traditionally important and even more significant during the crisis. In the bank's view, these markets have barely been affected by the recent turmoil in Dubai.

Since the bank handles almost all of its refinancing through KfW, liquidity was assured at all times even in the midst of the financial and economic crisis. In line with the trends seen at commercial banks with similar ratings, however, refinancing spreads, which had already increased sharply in 2008, rose even more until the middle of 2009. Only then did refinancing costs start to fall, but they still remained much higher than pre-crisis levels.

Overview of the net assets, financial position and results of operations

As at 31 December 2009, KfW IPEX-Bank had total assets of EUR 48.2 billion, which is EUR 5.1 billion less than in the previous year. This decline was largely caused by the EUR 2.7 billion fall in trust assets to EUR 22.6 billion, which mostly includes the promotional loans administered on a trust basis for KfW in the field of export and project finance. Moreover, in the market business of KfW IPEX-Bank, loans and advances to banks and customers decreased by EUR 1.5 billion to EUR 22.5 billion. The main factor here was the fall in new business compared to previous years as a result of the difficult macroeconomic conditions. Furthermore, the volume of funds invested in securities was reduced by EUR 0.9 billion to EUR 3.0 billion following the sale of held-to-maturity securities. A good portion of these securities were held in the liquidity reserve. Parallel to this, only a limited volume of acquisitions was made given the high volatility on the markets.

The volume of business, which in addition to total assets comprises contingent liabilities and irrevocable loan commitments, dropped by EUR 6.5 billion. While irrevocable loan commitments fell by EUR 1.6 billion, an increase of EUR 0.3 billion to EUR 2.3 billion was recorded for contingent liabilities from guarantees.

The bank's regulatory capital totalled EUR 4.0 billion as at 31 December 2009. This resulted in an increase in the total capital ratio from 14.1% in the previous year to 14.5%. The tier 1 capital ratio dropped marginally to 8.8%.

In spite of the difficult economic climate, KFW IPEX-Bank managed to raise its operating income before risk provisions and valuations by EUR 81 million to EUR 321 million. As before, key components of the result include net interest income of EUR 317 million as well as net commission income amounting to EUR 124 million, which collectively are EUR 93 million or 26% higher than in the previous year. In the 2009 financial year, net interest income benefited in the amount of EUR 77 million from no interest being paid on the silent partner contribution and profit participation right. Administrative expense amounted to EUR 119 million, comprising personnel expenses of EUR 56 million and other administrative expenses including depreciation on property, plant and equipment of EUR 63 million. The trend in risk provisions was shaped by the economic crisis. During the financial year, the total expenses of KfW IPEX-Bank for risk provisions and valuations amounted to EUR 467 million, which is double the figure from the previous year. The vast majority of this, i.e. EUR 453 million, was assigned to risk provisions for the lending business (previous year: EUR 138 million). Valuations from investments in financial assets amounted to EUR –14 million in the 2009 financial year, which is much better than in the previous year (EUR –92 million) in light of the recovery on the financial markets. This result is based on the write-downs of individual securities that could only be compensated for partially by write-backs on other securities. Overall, all recognisable risks were covered by commensurate risk provisions.

The high risk provisions meant that KfW IPEX-Bank incurred an operating loss in 2009 of EUR 146 million. After deduction of taxes on income totalling EUR 21 million, and after including loss sharing from profit participation capital amounting to EUR 27 million, KfW IPEX-Bank reported a net annual loss for the financial year of EUR 140 million. Taking into account the silent partner capital contribution to cover losses totalling EUR 55 million, the bank recorded a balance sheet loss of EUR 85 million.

Development of net assets

Volume of lending for own account

The volume of lending (loans and advances including financial guarantees and irrevocable loan commitments) fell during the 2009 financial year by EUR 2.8 billion or 8 % to EUR 31.5 billion.

Loans for own account 2009

Business sector	31 Dec. 2008	Disbursements	Repayments	Other additions/ disposals[1]	31 Dec. 2009
	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions
Shipping	4,939	1,553	852	–420	5,220
Manufacturing Industries, Retail, Health	3,468	445	763	–96	3,054
Basic Industries	3,256	236	845	–91	2,556
Rail and Road	2,681	433	454	–62	2,598
Power, Renewables and Water	2,651	428	505	0	2,574
Aviation	1,878	309	232	–87	1,868
Telecommunications and Media	1,380	99	334	–24	1,121
Ports, Airports, Construction Industry/PPP	1,336	178	165	–121	1,228
Leveraged Finance, Mezzanine, Equity	854	79	113	21	841
Financial Institutions and Trade & Commodity Finance	446	163	478	18	149
	22,889	**3,923**	**4,741**	**–862**	**21,209**
Interest receivable/ancillary claims	156	0	0	–84	72
Other receivables	938	0	0	248	1,186
Loans and advances to banks and customers	**23,983**	**3,923**	**4,741**	**–698**	**22,467**
Financial guarantees[2]	**2,054**	**633**	**370**	**–9**	**2,308**
Irrevocable loan commitments[2]	**8,348**	**0**	**0**	**–1,586**	**6,762**
Total	34,385	4,556	5,111	–2,293	31,537

[1] Other additions and disposals in the loans and advances to banks and customers principally result from outflows from irrevocable loan commitments in relation to drawdowns from commitments.
[2] Refer to the Notes for a breakdown of the amounts by business sector.

The decline in the total volume of lending results from the contraction in new business in 2009 due to the difficult macroeconomic climate in comparison with previous years. The fall in loans and advances to banks and customers by EUR 1.5 billion and in irrevocable loan commitments by EUR 1.6 billion is offset slightly by the modest increase in financial guarantees totalling EUR 0.3 billion. The financial guarantees principally include performance guarantees amounting to EUR 1.4 billion as well as guaranteed credits amounting to EUR 0.9 billion. Similarly as in the previous year, other receivables specifically concern call money and term deposits at KfW totalling EUR 1.1 billion (previous year: EUR 1.0 billion).

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

Development of other major balance sheet assets
The portfolio of bonds and other fixed-income securities of KfW IPEX-Bank contracted by EUR 0.9 billion to EUR 3.0 billion in the 2009 financial year. This decline is due partly to the sale and disposal of securities held to maturity, but also to the fact that new investments were limited in view of the highly volatile markets. During the reporting year, securities with a nominal value of EUR 2.2 billion were reclassified to fixed assets. The majority of security assets are now held under fixed assets (EUR 2.7 billion). Securities amounting to EUR 0.3 billion are recorded under current assets.

Assets held in trust recorded a decline of EUR 2.7 billion to EUR 22.6 billion. This item principally includes promotional loans from the E&P business unit of KfW, amounting to EUR 22.4 billion, administered by KfW IPEX-Bank on a trust basis. Furthermore, this includes investments administered on a trust basis for KfW amounting to EUR 28 million, shares amounting to EUR 25 million as well as loans held in trust from market business amounting to EUR 135 million.

The investment portfolio amounts to EUR 92 million and is EUR 19 million above the figure from 31 December 2008. This is principally the result of an increase in the capital shares of existing investments.

In addition to the investments in Sentient Global Resources Fund II LP (EUR 21 million) and Sentient Global Resources Fund III LP (EUR 13 million), the majority (74 %) of the investment volume is accounted for by Hoch-Tief-Airport Capital GmbH & Co KGaA (EUR 19 million) and IDFC Private Equity Fund II (SPV) (EUR 14 million).

Development of financial position

Refinancing

Similarly as in the previous year, the refinancing of KfW IPEX-Bank is almost exclusively based on borrowing from KfW. Under a refinancing agreement KfW provides KfW IPEX-Bank with funds at conditions in line with the market. The bank uses current money and capital market products as refinancing instruments. Refinancing funds are obtained in the currencies and for the terms required by the bank's customers. In the new lending business, the bank was able in most cases to pass on the higher refinancing costs to its customers.

On account of the lower refinancing volume, liabilities to banks dropped by EUR 2.9 billion (12 %) to EUR 20.9 billion in the financial year. This included promissory note loans falling by EUR 2.0 billion to EUR 15.5 billion and the volume of call money and term money borrowing dropping by EUR 0.6 billion to EUR 5.2 billion. Medium to long-term promissory note loans remain the most important source of refinancing. Funds are principally borrowed in euros and US dollars.

By contrast, liabilities to customers increased by EUR 111 million to EUR 277 million. This includes EUR 123 million in short-term deposits from customers, which represents growth of EUR 54 million over the previous year.

Structure and development of refinancing

	31 Dec. 2008	Borrowings	Repayments	Other additions/ disposals, price changes and pro rata/due interest	31 Dec. 2009
	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions
Liabilities to banks					
Current account (KfW)	0	0	0	3	3
Call money and term money borrowing (KfW)	5,873	33,219	33,824	–21	5,247
Promissory note loans and other long-term borrowing (KfW)	17,555	306	2,092	–246	15,523
Interest payable (KfW)	300	0	0	–199	101
KfW total	**23,728**	**33,525**	**35,916**	**–463**	**20,874**
Other banks[1]	12	0	0	–7	5
	23,740	33,525	35,916	–470	20,879
Liabilities to customers					
Other creditors	166	1,238	1,126	–1	277
Total	23,906	34,763	37,042	–471	21,156

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

Equity, profit participation capital, subordinated loans and fund for general banking risks in accordance with Section 340g HGB

	31 Dec. 2009		31 Dec. 2008	Change
	EUR in millions	EUR in millions	EUR in millions	EUR in millions
Equity		2,415	2,555	–140
of which: subscribed capital	*2,045*		*2,100*	*–55*
of which: capital reserve	*450*		*450*	*0*
of which: retained earnings	*5*		*5*	*0*
of which: balance sheet loss	*–85*		*0*	*–85*
Profit participation capital		424	0	424
Subordinated liabilities		1,208	1,250	–42
Fund for general banking risks in accordance with Section 340g of the HGB		150	150	0
Total		4,197	3,955	242

During the financial year, subscribed capital fell by EUR 55 million to EUR 2,045 million. The reason for the decline was that due to the net annual loss the silent partner contribution within the subscribed capital absorbed some of the loss in accordance with contractual provisions. There is no contractual maturity date for the silent partner contribution. Given the net annual loss, no interest was paid thereon for the 2009 financial year.

The capital reserve of EUR 450 million and the retained earnings of EUR 5 million remain unchanged. The balance sheet loss for the 2009 financial year amounts to EUR 85 million.

KfW Beteiligungsholding GmbH granted KfW IPEX-Bank GmbH profit participation capital amounting to USD 650 million (EUR 451 million) on 1 April 2009; given the net annual loss, this capital accordingly absorbed EUR 27 million of the loss, which led to a reduction in the carrying amount. There was also no interest paid for the 2009 financial year.

The total portfolio of subordinated loans remained unchanged at USD 1,740 million. The entry in the balance sheet fell by EUR 42 million to EUR 1,208 million on account of exchange-rate movements.

Silent partner contributions, profit participation rights and subordinated loans are designed to ensure that they meet the requirements of Section 10 of the German Banking Act *(Kreditwesengesetz, KWG)* regarding own funds of banks.

Development of other major items of liabilities and equity
Provisions rose by EUR 108 million on the previous year, reaching EUR 188 million. This increase was the result of additions to provisions for the lending business amounting to EUR 102 million, which thus total EUR 116 million (EUR +92 million). EUR 10 million was reversed. Over and above this there are provisions for pensions and similar commitments totalling EUR 48 million (EUR +5 million), provisions for unsettled payments in kind and payroll expenses amounting to EUR 18 million and provisions for taxes totalling EUR 6 million.

Off-balance sheet financial instruments
The volume of derivative transactions undertaken to hedge interest and exchange rate risks remained flat on the previous year at EUR 7.9 billion. As contracts with interest rate risks, interest swaps at EUR 7.5 billion represent the largest component (95%) in the total volume of off-balance sheet financial instruments. Furthermore, KfW IPEX-Bank uses cross currency swaps (EUR 0.2 billion), FX swaps (EUR 0.1 billion) and forward exchange deals (EUR 66 million) to manage market price risks. In addition, credit default swaps amounting to EUR 40 million were concluded in which the bank functions as the protection seller for third parties.

Earnings position

	1 Jan. – 31 Dec. 2009	1 Jan. – 31 Dec. 2008	Change	
	EUR in millions	EUR in millions	EUR in millions	%
Interest income[1)]	813	1,211	–398	–33
Interest expense	–496	–980	–484	–49
Net interest income	**317**	**231**	**86**	**37**
Net commission income	124	118	7	6
Net trading result	–2	0	–2	–
General administrative expense	–119	–110	9	8
Other operating income and expenses	1	1	0	–
Operating income before risk provisions/valuations	**321**	**240**	**81**	**34**
Valuations from securities and investments	–14	–92	–78	–85
Risk provisioning result in lending business	–453	–138	315	228
Risk provisions and valuations, total	**–467**	**–230**	**237**	**103**
Operating income before taxes	**–146**	**10**	**–156**	**–1,569**
Taxes on income	–21	–5	16	337
Income from loss absorption	27	0	27	–
Net income / Net loss for the year	**–140**	**5**	**–145**	**–2,811**
Allocated from silent partner contribution	55	0	55	–
Transfers to other retained earnings	0	–5	–5	100
Balance sheet loss	–85	0	–85	–

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

The most important source of income is net interest income, which contributed EUR 317 million to net income. 89 % or EUR 725 million of the interest income resulted from credit and money market transactions as well as from securities (EUR 87 million). Interest expenses amount to EUR 496 million and are mainly ascribed to accepted promissory note loans as well as money market transactions totalling EUR 399 million. Interest expenses for subordinated liabilities amounting to EUR 26 million are also included for subordinated loans. In the 2009 financial year, net interest income benefited in the amount of EUR 77 million from the non-payment of interest on the silent partner contribution and profit participation right.

Net commission income amounts to EUR 124 million and includes the net result from processing fees in lending activities (EUR 105 million) and guarantee commissions (EUR 18 million).

Administrative expense amounts to EUR 119 million. This includes personnel expense at EUR 56 million which accounts for 47 % of total expenses. Non-personnel expense (including write-downs) amounts to EUR 63 million and mainly includes expenses for services at EUR 32 million, office operating costs at EUR 14 million and occupancy costs at EUR 7 million. A major portion of non-personnel expense amounting to EUR 45 million relates to services with KfW.

Administrative expense

	2009	2008	Change
	EUR in millions	EUR in millions	EUR in millions
Wages and salaries	49	42	7
Social security contributions	5	5	0
Expense for pension provision and other employee benefits	2	2	0
Personnel expense	**56**	**49**	**7**
Other administrative expense	63	61	2
Depreciation on equipment	0	0	0
Non-personnel expense	**63**	**61**	**2**
Administrative expense	**119**	**110**	**9**

Risk provisions and valuation

The risk provisions and valuation result is principally composed of write-downs and impairment on receivables and securities as well as additions to provisions for the lending business. In terms of risk provisions for the 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. Due to the bank's current risk assessment, additional portfolio loan loss provisions were recognised in the financial year, especially in the Shipping business.

Total expense of EUR 467 million was posted in the risk provisions and valuation result for the financial year, of which EUR 453 million was for risk provisions for the lending business and EUR 14 million for write-downs and valuations of the securities portfolio.

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

Summary

On the whole, KfW IPEX-Bank can look back on a solid financial year in spite of the difficult macroeconomic conditions. The result was impaired by the consequences of the financial market crisis and the general economic downturn, which are reflected in the much higher risk provisions in comparison with the previous year.

These elevated risk provisions resulted in an operating loss before taxes on income.

Subsequent events

There are no events of particular importance that took place after the closing of the financial year.

Sustainability

Review of environmental and social impacts of core business

KfW IPEX-Bank is fully committed to examining the environmental and social acceptability of the projects to be financed. In 2008 the bank adopted the "Equator Principles", but since 2000 it has had its own demanding environmental and social guidelines with clear rules and procedures for its operating business; these guidelines have been adapted several times to take account of current trends in international discussions on "corporate social responsibility". The Environmental and Social Guidelines of KfW IPEX-Bank transcend the requirements of the Equator Principles and apply not only to project finance but also to all other types of finance by the bank. KfW IPEX-Bank is involved in the activities of the Equator banks as part of a "community of learning".

All loan applications are assigned to one of three categories based on the environmental and social aspects of the projects to be financed: categories A and B represent projects that could have significant environmental and social impacts. Yet since these impacts are often technically manageable, projects in these categories are vetted closely with the collaboration of KfW technical experts. The exceptions to the rule are projects which are to be implemented in an EU country or in another OECD country with established environmental protection legislation and practices as well as a stable social order. In all of the cases subject to a detailed review, KfW IPEX-Bank only grants the finance if the internationally accepted environmental and social standards of the World Bank Group are adhered to, if necessary with additional requirements. In 2009 these were predominantly raw material projects and thermal power plants. Eleven projects fell into category A and 13 projects were assigned to category B. Category C, where no special review is necessary, included 38 projects, mainly aircraft, ships and telecommunications facilities, as well as products from the capital goods industries that meet all of the German or European Union standards.

The bank is particularly committed to projects that are friendly to or protect the environment. From the total commitments for 2009, loans totalling more than EUR 1 billion were allocated to these project categories. The focal point of this finance was investments in renewable and thermal energy technologies aimed at improving energy efficiency. Other finance was provided for railway investments.

KfW IPEX-Bank is a commercial bank and does not provide retail banking or asset management services for third parties. It only has a limited amount of securities for liquidity purposes, most of which are external capital investments.

In-house environmental protection

KfW IPEX-Bank fulfils its responsibility for environmental protection in relation to its own business activities too. Ambitious goals are set and monitored as part of the sustainability management of KfW Bankengruppe. KfW Bankengruppe documents this work centrally – for KfW IPEX-Bank too – in its Sustainability Report. Since 2006 KfW Bankengruppe has been CO_2 neutral. With this voluntary step it is the first German bank to completely neutralise its CO_2 emissions: all emissions from the use of energy and business trips are offset with corresponding amounts of emission certificates. Now legally independent, KfW IPEX-Bank continued this practice in 2009.

Human resources policy moving forward

KfW IPEX-Bank requires well-trained and motivated employees who impress our customers with their expertise, service-minded approach and professionalism. Important building blocks of the bank's HR policy include a success-based, performance-oriented remuneration system, ensuring a balance between professional and private life, such as with part-time work, and a variety of professional and health-care benefits. Relevant indicators remained stable in 2009 at healthy levels, or improved. The share of employees working part-time totals roughly 9 %, the same as last year. The share of female staff remained constant at 46 % and the proportion of women in the management rose from 16 % to 20 %.

Risk Report

General conditions of risk management and controlling

The core of the business model adopted by KfW IPEX-Bank is to undertake credit risks in a deliberate and controlled fashion with the objective of generating adequate revenues. In the pursuit of these objectives it must ensure it has the capacity to bear these risks at any time.

Professional and responsible risk management and its integration into the integrated risk-return management of the bank represent a significant success factor for the bank. All significant components of the integrated system for risk-adjusted return management at the bank undergo continuous expansion and further development.

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

In the 2009 financial year,

- counterparty risks,
- market price risks,
- operational risks, and
- liquidity risks

were specifically identified as material risk categories of the bank.

Business and risk strategy

The Board of Managing Directors of KfW IPEX-Bank defines the principles of the bank's risk policy and thus the framework for undertaking and controlling risks within the scope of its risk strategy, 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. For liquidity risk, the risk definition is currently being further developed along with a risk measure that is suitable for KfW IPEX-Bank. This will be followed by specifying strategic guidelines on this basis to be converted into a sub-strategy for liquidity risk.

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 context are counterparty risks followed by market price risks (including the credit spread risk) and operational risks.

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

Organisation of risk functions

The Board of Managing Directors represents the highest decision-making body with responsibility for issues relating to risk management and controlling. In this context, the board 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, Credit Analysis, Restructuring, Risk Strategy, Methods and Instruments, and Risk Controlling. These are regularly reviewed by the Internal Auditing department, independent of bank procedures, and are separate from front office areas up to the level of the Board of Managing Directors. This means the separation of functions between front office and back office as 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 unit of "Second Vote", which is charged with assessing the risk aspects of any pending loan decisions which have to be voted on, as well as evaluating the risks in the portfolio and identifying measures to mitigate risks. As a separate organisational unit under Risk Management, "Collateral Management" is responsible for the provision and valuation of all collateral, and it monitors the eligibility of collateral when determining risk indicators.

Credit Analysis is in charge of regular analyses and ratings of new and existing transactions and produces sector analyses.

Restructuring is responsible for problem loan processing and in certain cases for the intensified loan management of exposures.

Risk Strategy, Methods and Instruments includes the organisational units of "Portfolio Management", "Price and Risk Instruments" as well as "Fundamental Issues and Methodology". The "Portfolio Management" unit manages the 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 the reviewing of the methods used in the rating and pricing processes as well as the system of key risk indicators for counterparty default 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 for reporting to the Board of Managing Directors about these risks. Risk Controlling also has the responsibility for reporting on transactions with increased counterparty risks (watch list and report on non-performing loans) as well as co-operating with Portfolio Management to prepare the quarterly risk report. Risk Controlling is equally responsible for methods used to measure and monitor liquidity risk.

KfW IPEX-Bank outsources some functions and activities in risk management and risk controlling to KfW. The outsourced functions and activities are governed by service level agreements between KfW IPEX-Bank and KfW. Monitoring of the functions outsourced to KfW ensures that KfW IPEX-Bank also fulfils its responsibility for these functions in accordance with Section 25 a (2) of the German Banking Act *(Gesetz über das Kreditwesen, KWG).*

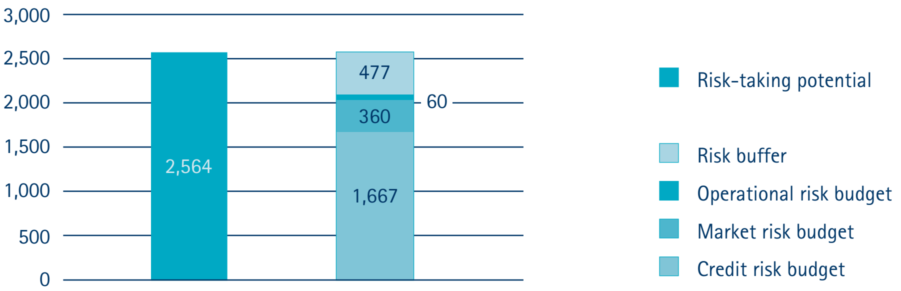
The Board of Supervisory Directors is responsible for monitoring the Board of Managing Directors regularly. It is also involved in important loan and refinancing decisions.

Risk-bearing capacity and regulatory capital adequacy

As part of its risk-bearing capacity concept, the Board of Managing Directors of KfW IPEX-Bank has defined regulatory core capital as the maximum available risk-taking potential. A risk budget for entering into risks is set on this basis at the overall bank level, with due consideration of a risk buffer. The total capital budget is divided between counterparty risk, market risk and operational risk in accordance with the business strategy.

Risk-bearing capacity – Risk-taking potential and risk budget as of 31 December 2009

Figures in EUR millions

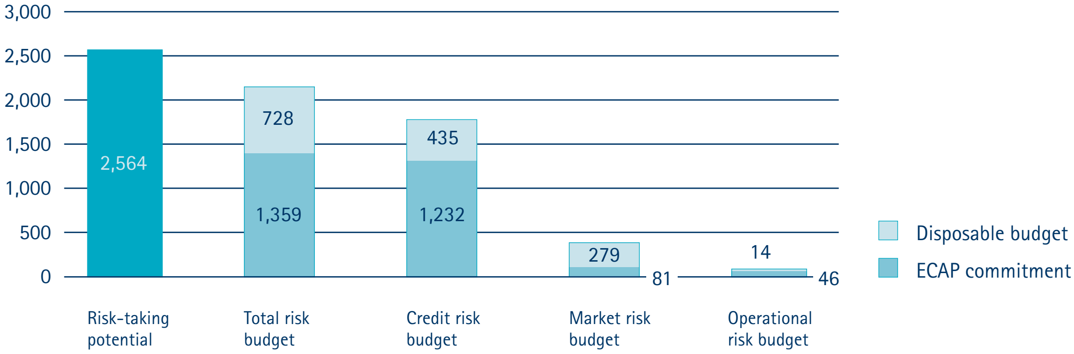


This overview shows that EUR 477 million or 19 % of the risk-taking potential was reserved as a buffer as of 31 December 2009 at the overall bank level. During 2009 the buffer was gradually reduced in order to increase the credit risk budget and compensate for the 2009 net annual loss. For 2010 the risk capital buffer has been lowered to EUR 450 million or 17 % of the risk-taking potential since the credit risk budget was once again raised sharply. In accordance with the business strategy, EUR 1,955 million or 72 % of the risk-taking potential will be earmarked for undertaking counterparty risks in the future. By contrast, a substantially lower budget of EUR 235 million or 9 % is planned for market risks. At EUR 60 million or 2 % of the risk-taking potential, operational risk plays a secondary role.

As demonstrated by the following overview, in addition to the EUR 477 million risk buffer at the overall bank level, there are also further buffers within the risk budgets for individual types of risk since the risk budgets are not fully utilised. Of the entire risk-taking potential totalling EUR 2,564 million, the sum of EUR 1,359 million was accounted for by risk positions as of 31 December 2009. This means the utilisation of the risk-taking potential at the overall bank level amounts to 53 %.

Utilisation of risk budget as at 31 December 2009

Figures in EUR millions



The regulatory capital requirements must be taken into account as a strict additional condition for in-house risk management. As a newly founded bank, KfW IPEX-Bank has to maintain a higher total capital ratio of 12 % instead of 8 % during the first three financial years, in accordance with the German Solvency Regulation (Solvabilitätsverordnung, SolvV), and we have implemented the necessary processes for this. The total capital ratio as at 31 December 2009 was 14.5 %.

Counterparty risks

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

Credit risk

Credit risk not only includes classic credit risks but also issuer risk and counterparty 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 risk is reflected in potential financial losses in the event of failed fulfilment of pending transactions by the counterparty, provided that concluding a new transaction on the market might only be possible under less favourable conditions (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 deemed 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 with credit risks, investment risks play a secondary role in KfW IPEX-Bank. In the future, risks from strategic investments where there is an emphasis on company or business policy objectives will be tracked separately as investment risk. Operative investments are still aggregated under credit risks given their "credit-like" character or nature as "credit substitutes".

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, the bank uses the advanced approach based on internal ratings (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/slotting approach).

The bank's 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 established by observing the principle of dual control in the back office departments.

Consistency of the individual rating processes is guaranteed by depicting 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 the 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 promptly to changing general conditions. The objective is to increase the discriminatory power of all rating processes continuously.

1) In the elementary approach, a transaction-specific slotting grade is assigned instead of estimating the PD and LGD, which is transformed into a risk weighting in accordance with supervisory guidelines.

Not only the outstanding volume of lending but also the valuation of collateral exerts a 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 provider. In the case of security in rem, the deductions are attributable not only to market price fluctuations but also, and above all, to losses in value due to depreciation. The value thus calculated is an important 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 a reliable valuation of the collateral position is guaranteed at the 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 business continuity. Portfolio 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 their economic capital (ECAP). 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-taking potential, the limits and the current risk situation. Major risk parameters are monitored continuously, with monthly reports sent to the Board of Managing Directors.

Management of counterparty risk

The following central instruments are used to control 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. Limitations are based on the dimensions of borrower unit and country. 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 together with Portfolio Management proposes specific guidelines based on the current risk situation and the business policy objective. These are approved by the Board of Managing Directors and must be taken into account by the business sectors when forging business links. Risk guidelines can be applied to all relevant key data of credit risk (e.g. maturity, guarantee, rating), and they may be designed as industry, region and product-specific. Additionally, KfW IPEX-Bank is 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 a significant increase in counterparty risks. The effects of diverse (extreme) 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 given default
- Exposure at default
- Correlations

Active portfolio management

Taking the current market climate into account, active portfolio management deploys specific measures in order to diversify the risks of the portfolio, thereby optimising the risk structure of the loan portfolio. Portfolio management measures are taken in order to expand the scope of business policy and to enable purposeful management of the credit portfolio.

For this purpose, KfW IPEX-Bank has access to various instruments. The instruments are checked for suitability on an ongoing basis and gradually expanded.

The initiative for active portfolio management comes from Portfolio Management.

Portfolio risk committee

In addition to operational cooperation between Portfolio 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 mitigation 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 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 environment of the given borrower 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. The Restructuring unit takes over the processing of commitments on the non-performing loan list and in certain cases on the watch list 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. The bank also lists commitments on a so-called "Yellow List" which, although they do not require any intensive treatment from a risk perspective, must be monitored more closely due to some unusual features.

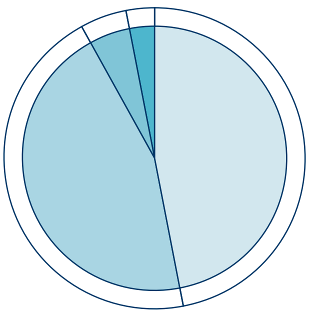
Counterparty risk committee

The counterparty risk committee that convenes every month chaired by the member of the Board of Managing Directors in charge of risk management discusses alternatives for action with regard to Yellow List, Watch List and NPL cases, and monitors their implementation. The Board of Managing Directors of KfW IPEX-Bank may have to take decisions in specific cases.

Structure of counterparty risk

Distribution of net exposure by rating class

Total net exposure: EUR 12 billion

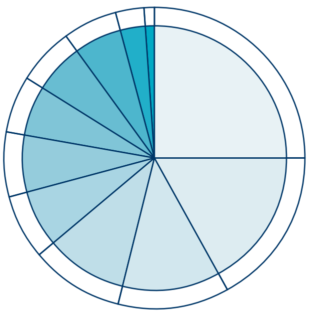


	2009	2008
Investment grade (M1–M8)	47 %	63 %
Non-investment grade (M9–M15)	45 %	34 %
Watch list (M16–M18)	5 %	3 %
Non-performing loans (M19–M20)	3 %	1 %

Due to the intensification of the financial market crisis and the general slowdown in the economy, the creditworthiness structure in the portfolio deteriorated. The average probability of default in the 2009 financial year rose from 0.76 % to 1.37 %. The net exposure is EUR 12 billion. Rating classes M1–M8 make up 47 % of this. A further 45 % is in rating classes M9–M15. The proportion of watch list and NPL loans amounts to only 5 % and 3 % of the net exposure, respectively.

Distribution of economic capital by business sector

Total ECAP: EUR 1,231 million

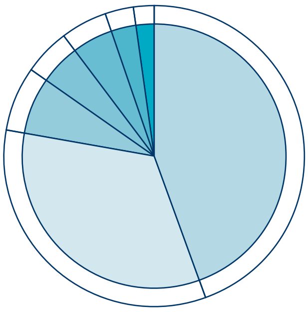


	2009	2008
Shipping	25 %	16 %
Manufacturing Industries, Retail, Health	17 %	17 %
Basic Industries	12 %	18 %
Leveraged Finance, Mezzanine, Equity	10 %	9 %
Power, Renewables and Water	7 %	5 %
Telecommunications and Media	7 %	10 %
Ports, Airports, Construction Industry/PPP	6 %	5 %
Rail and Road	6 %	9 %
Aviation	6 %	3 %
Mainly securities in the liquidity portfolio	3 %	5 %
Financial Institutions and Trade Finance	1 %	3 %

This overview reveals the diversification of the portfolio throughout individual business sectors. The largest economic capital commitment is found in the sectors of Shipping (25 %), Manufacturing Industries, Retail, Health (17 %) and Basic Industries (12 %).

Distribution of economic capital by region

Total ECAP: EUR 1,231 million



	2009	2008
Germany	33 %	14 %
Rest of Europe	44 %	65 %
Latin America	7 %	6 %
North America	5 %	5 %
Asia	5 %	7 %
Africa	3 %	2 %
Australia and Oceania	2 %	1 %

Taking a regional perspective, business is focused on Europe including Germany. This accounts for 77 % of the committed economic capital for the counterparty 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 the lending business by creating risk provisions. Risk provisions were significantly increased during the past financial year in view of the economic crisis. Specific loan loss provisions or provisions for the lending business amounted to EUR 383 million as at 31 December 2009, compared with EUR 127 million as at 31 December 2008. At the same time, portfolio loan loss provisions for loans without specific loan loss provisions were increased by EUR 250 million to EUR 356 million.

The portfolio of specific loan loss provisions and lending business provisions for financial guarantees as well as irrevocable loan commitments, structured according to business sectors, was as follows as at 31 December 2009:

Business sector	31 Dec. 2009	31 Dec. 2008	Change
	EUR in millions	EUR in millions	EUR in millions
Shipping	153	0	153
Ports, Airports, Construction Industry/PPP	70	0	70
Manufacturing Industries, Retail, Health	70	32	38
Basic Industries	33	39	–6
Rail and Road	27	56	–29
Financial Institutions and Trade & Commodity Finance	14	0	14
Power, Renewables and Water	7	0	7
Telecommunications and Media	4	0	4
Leveraged Finance, Mezzanine, Equity	4	0	4
Aviation	1	0	1
Total	383	127	256

Portfolio loan loss provisions as well as portfolio provisions (for guarantees and irrevocable loan commitments) are taken into account for loans without specific loan loss provisions on the basis of an expected loss concept, structured as follows by business sector. Due to the current risk assessment at the bank, additional portfolio loan loss provisions were recognised, especially in the Shipping business sector.

Business sector	31 Dec. 2009	31 Dec. 2008	Change[1]
	EUR in millions	EUR in millions	EUR in millions
Shipping	171	20	151
Basic Industries	47	21	26
Manufacturing Industries, Retail, Health	43	20	23
Aviation	34	3	31
Ports, Airports, Construction Industry/PPP	18	5	13
Leveraged Finance, Mezzanine, Equity	13	8	5
Rail and Road	8	8	0
Financial Institutions and Trade & Commodity Finance	8	8	0
Telecommunications and Media	7	6	1
Power, Renewables and Water	7	7	0
Total	356	106	250

[1] Additions and reversals are netted off within business sectors.

In addition to risk provisions for the lending business, net write-downs on long-term securities amounting to EUR 25 million were recorded (previous year: EUR 20 million).

Market price 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 the bank 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 credit risk (counterparty risk).

Interest rate risk and foreign 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. Compliance with this instruction is monitored on a weekly basis by Risk Controlling. 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 is measured using a model based on which the value-at-risk (VaR) is calculated for the EUR and the USD positions with a confidence level of 99.96 %. The foreign exchange risk is calculated using a parametric VaR model, also with a confidence level of 99.96 %. Diversification effects between the interest rate and the foreign exchange risk 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 foreign exchange risks as at 31 December 2009.

Present value Interest position	VaR interest rate risk (99.96 %/3-month holding period)	VaR foreign exchange risk (99.96 %/3-month holding period)
EUR in millions	EUR in millions	EUR in millions
2,102	6	21

The risk values for the interest rate risk show that the position adopted by KfW IPEX-Bank makes it practically immune to interest rate fluctuations. Even with a confidence level of 99.96 %, the loss would amount to less than 1 % of its total present value. Also, sensitivity to exchange rate variations is slight. The currency risk is heavily influenced at present by impairment as well as additions to risk provisions for foreign currency loans.

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 2,551 million as at 31 December 2009 and included 108 items. The issuer structure as at the reporting date was as follows:

Issuer	Nominal volume
	EUR in millions
Corporates	122
Financial institutions	1,448
Pfandbrief bonds	705
Foreign countries	176
Federal Republic of Germany	100
Total	2,551

To take account of the continuing financial crisis in 2009, the investment activity was very limited and concentrated on comparatively low-risk securities. This caused a sharp decline in the portfolio volume (EUR –786 million compared to 2008). What is more, the average duration of the portfolio contracted considerably on account of this adjusted portfolio strategy. The spread BPV[2] of the portfolio at year end fell to less than EUR 4,500 (compared with EUR 6,000 in 2008).

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

For weekly reporting, the credit spread risk is measured with an assumed holding period of 10 days and at a confidence level of 99.96 %. The credit spread risk as at 31 December 2009 was EUR 6 million (compared with EUR 24 million as at 31 December 2008).

Interest rate risks arising from the positions 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 only EUR positions are held.

In 2009 some of the securities in the liquidity reserve were reclassified to fixed assets and so no longer fall under the requirement to be valued strictly in accordance with the lower of cost or market principle. For the securities remaining in the liquidity reserve, the reversals of market value write-downs and realised profits respectively amounted to EUR 11 million in the 2009 financial year. The largest proportion of these, EUR 10 million, resulted from reversals of market value write-downs.

Liquidity risks

In terms of liquidity risk the bank distinguishes between the risk of not settling present or future payment obligations at all, on time and/or not to the required extent, or not in an economically efficient manner (solvency risk). Here the bank also includes the risk that assets during a liquidity crisis can only be liquidated with high market price discounts / "haircuts" (market liquidity risk).

The bank differentiates from the above the liquidity maturity transformation risk and takes this to mean the risk of a loss occurring due to a change in the bank's own refinancing curve (spread curve) resulting from a transformation in the liquidity maturity structure within a given period.

The solvency risk of KfW IPEX-Bank is considerably limited by the existing refinancing commitment of KfW. The refinancing agreement guarantees KfW IPEX-Bank access to liquidity through KfW at any time. This means the solvency risk of KfW IPEX-Bank is directly related to the liquidity risk of the Group. The solvency risk of KfW Bankengruppe at any time is measured and controlled accordingly by KfW. Our liquidity requirements are thus included in the strategic refinancing planning of KfW at Group level. By contrast, KfW IPEX-Bank alone is responsible for measuring and controlling its own operative liquidity.

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)* and in conjunction with the German Liquidity Regulation *(LiqV)*. From 2010 a credit facility is planned with KfW. 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 daily 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

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.

The organisation of operational risk management and controlling are based on the following three core elements:

- Conceptual separation into central operational risk controlling and operational risk senior management, decentralised operational risk analysts,
- The Board of Managing Directors of KfW IPEX-Bank as the operational risk decision-making and control body,
- Inclusion of the Internal Auditing department as independent control mechanism.

The operational risk strategy forms the framework for dealing with operational risks at KfW IPEX-Bank and is based on the guidelines of KfW (Group strategy). Operational risks are more quantitatively measurable for KfW IPEX-Bank than other types of risk. In spite of this, due to the often highly important nature of the outsourced services (primarily IT applications) this is a material risk for business operations.

This is why the activities of operational risk management focus on continuously monitoring compliance with the agreed service level agreements, avoiding, to a large extent, any operational losses, improving the risk profile by indicating potential problem areas and optimising the cost/benefit aspects of business processes. Risk management requirements are also derived from the standard approach to operational risks which KfW IPEX-Bank uses as a basis when calculating the regulatory capital for operational risks.

The most important instruments in operational risk management include the 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 risk profiles per operational risk segment are ascertained based on a categorised risk model. Information relevant for control purposes is presented to the Board of Managing Directors and used as the basis for decisions in risk control.

There is also an early warning system for assessing and measuring operational Key Risk Indicators (KRI) during the year, and the results are included in the quarterly risk report. The primary objectives are to avoid operational risk losses and identify unfavourable trends. The indicators address various operational risk areas and are included in the quarterly reporting on operational risks.

The event database is a central tool to capture and automatically process procedures that must be reported. This means weaknesses can be identified in business processes and operational risks can be quantified.

The database also enables the evaluation and electronic historisation of loss data. This requires all of the default events related to operational risks being entered into the database.

Summary

Deliberately entering into and managing risks is an important part of the integrated risk-return management of 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, and they are updated on a continuous basis.

The organisational and process-related configuration of risk management guarantees that our risk strategy is implemented and complied with.

The bank's risk bearing capacity was adequate at all times throughout the past financial year. Also, the regulatory requirements on equity capital and reserves were complied with throughout. In view of the heightened default risks, KfW IPEX-Bank significantly reinforced its risk provisions during the past financial year, thereby taking account of all recognisable risks.

Forecast report

Even if the prospects of stability in the global economy improved towards the end of the year, KfW IPEX-Bank does not anticipate any stronger growth in its business on a broad scale in 2010. Fiscal policy stimulus and monetary policy measures in almost every country will continue to have an impact in 2010 as well. However, a sustained global upswing on the markets in which the bank drives its core business activities is not to be expected for 2010, and so the bank assumes that the demand for financing will remain subdued. Only in some sectors, such as energy and the environment for example, the trends may be somewhat more positive. In this context, the voluntary commitments of many countries to climate protection and thus to increasing energy efficiency and using renewable energy sources will require a greater willingness to invest. Overall, the financing offered by the banks will also be subject to restrictions since the crisis has worsened the average risk rating of loan portfolios. Consequently, the requirements on equity capital will also be high in 2010 throughout the entire loan portfolio. Just like all other banks, this will also affect KfW IPEX-Bank. A possible tightening of regulatory requirements on equity capital would signal further restrictions for the new lending business. This means the bank will continue to focus on low-risk structures with good collateral in its new business. Over and above this we can expect there to be even fewer banks available to co-finance larger mid-to-long-term financing projects than before the financial market crisis, and there will still be keen competition for structures that are well collateralised. In this competitive climate the bank believes it has an advantage due above all to its long-term customer focus and its country and sector expertise, which is particularly important currently given the elevated risks on many markets.

In the future the bank will focus more closely on providing finance in the interests of the German and European export industry to develop economic and social infrastructure and improve climate and environmental protection.

In spite of the risk situation in international financing that demands increased attention, KfW IPEX-Bank is fully committed to the statutory mission of KfW to arrange medium and long-term financing in the interests of the German and European economy. Assuming that the impacts of the financial and economic crisis will still be felt in 2010 and 2011, KfW IPEX-Bank anticipates that new business volumes will total roughly EUR 8 billion in each of the two years. However, as it is not possible to reliably predict changes to the various influencing factors that determine the bank's business operations, this target is shrouded in uncertainty. The same applies for the forecast result, which will depend largely on the extent of the necessary risk provisions.

Financial statements of KfW IPEX-Bank GmbH 2009
Balance sheet as at 31 December 2009

Assets

		31 Dec. 2009			31 Dec. 2008		
	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands
1. Cash reserves							
a) Cash on hand			4			5	
b) Funds with central banks			0			0	
of which: at Deutsche Bundesbank	*0*						
c) Funds at postal giro offices			0	**4**		0	**5**
2. Loans and advances to banks							
a) Due on demand			269,128			229,865	
b) Other loans and advances			1,119,777	**1,388,905**		1,523,623	**1,753,488**
3. Loans and advances to customers				**21,077,680**			**22,229,281**
of which: secured by property lines	*0*						
of which: municipal loans	*30,409*						
4. Bonds and other fixed-income securities							
a) Money market instruments							
aa) of public issuers		101,210			0		
of which: eligible as collateral with the Deutsche Bundesbank	*101,210*						
ab) of other issuers		0	101,210		43,225	43,225	
of which: eligible as collateral with the Deutsche Bundesbank	*0*						
b) Bonds and notes							
ba) of public issuers		112,508			437,893		
of which: eligible as collateral with the Deutsche Bundesbank	*112,508*						
bb) of other issuers		2,771,651	2,884,159		3,357,895	3,795,788	
of which: eligible as collateral with the Deutsche Bundesbank	*2,294,118*						
c) Own bonds			0	**2,985,369**		0	**3,839,013**
Nominal value	0						
5. Shares and other non-fixed income securities				**7,704**			**0**
6. Investments				**91,840**			**72,388**
of which: in banks	*0*						
of which: in financial services institutions	*0*						
7. Assets held in trust				**22,570,636**			**25,288,160**
of which: loans held in trust	*22,517,591*						
8. Intangible assets				**251**			**7**
9. Property, plant and equipment				**584**			**685**
10. Other assets				**11,419**			**88,449**
11. Prepaid expenses and deferred charges				**17,759**			**19,385**
Total assets				48,152,151			53,290,861

Liabilities and equity

		31 Dec. 2009			31 Dec. 2008		
	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			14,015			75,345	
b) With agreed term or period of notice			20,865,149	**20,879,164**		23,664,689	**23,740,034**
2. Liabilities to customers							
a) Savings deposits			0			0	
b) Other liabilities							
ba) Due on demand		0			0		
bb) With agreed term or period of notice		277,129	277,129	**277,129**	165,931	165,931	**165,931**
3. Liabilities held in trust				**22,570,636**			**25,288,160**
of which: loans held in trust	*22,517,591*						
4. Other liabilities				**8,214**			**7,547**
5. Deferred income				**32,617**			**54,325**
6. Provisions							
a) Provisions for pensions and similar commitments			47,535			42,088	
b) Tax provisions			6,366			6	
c) Other provisions			133,975	**187,876**		37,352	**79,446**
7. Subordinated liabilities				**1,207,830**			**1,250,269**
8. Profit participation capital				**424,137**			**0**
of which: due within two years	*0*						
9. Fund for general banking risks				**150,000**			**150,000**
10. Equity							
a) Subscribed capital			2,044,849			2,100,000	
b) Capital reserves			449,992			449,992	
c) Retained earnings							
ca) Legal reserve		0			0		
cb) Reserve for own shares		0			0		
cc) Statutory reserves		0			0		
cd) Other retained earnings		5,157	5,157		5,157	5,157	
d) Balance sheet loss			(85,450)	**2,414,548**		0	**2,555,149**
Total liabilities and equity				48,152,151			53,290,861
1. Contingent liabilities							
a) From the endorsement of rediscounted bills		0			0		
b) From financial guarantees		2,308,160			2,054,337		
c) Assets pledged as collateral on behalf of third parties		0	2,308,160		0	2,054,337	
2. Other obligations							
a) Commitments deriving from sales with an option to repurchase		0			0		
b) Placing and underwriting commitments		0			0		
c) Irrevocable loan commitments		6,762,070	6,762,070		8,348,149	8,348,149	

Income Statement of KfW IPEX-Bank GmbH from 1 January 2009 to 31 December 2009

Expenses

		01 Jan. – 31 Dec. 2009			01 Jan. – 31 Dec. 2008		
	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands
1. Interest expense				495,844			979,715
2. Commission expense				755			3,816
3. Net expense from financial transactions				1,770			0
4. Administrative expense							
a) Personnel expense							
aa) Wages and salaries		48,657			42,721		
ab) Social security contributions, expense for pension provision and other employee benefits		7,104	55,761		6,377	49,098	
of which: for pension provisions	*2,125*						
b) Other administrative expense			62,547	118,308		60,682	109,780
5. Depreciation and impairment on property, plant and equipment and intangible assets				234			209
6. Other operating expenses				0			19
7. Write-downs of and value adjustments on loans and certain securities and increase of loan loss provisions				441,529			210,249
8. Write-downs of and value adjustments on investments, shares in affiliated enterprises and securities treated as fixed assets				25,407			20,081
9. Taxes on income				21,889			4,778
10. Net income for the year				0			5,149
Total expenses				1,105,736			1,333,796
1. Net income / Net loss for the year				(140,602)			5,149
2. Allocated from silent partner contribution				55,152			0
3. Transfers to retained earnings				0			(5,149)
Balance sheet loss				(85,450)			0

Income

		01 Jan. – 31 Dec. 2009			01 Jan. – 31 Dec. 2008		
	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) a) Lending and money market transactions			725,093			1,029,380	
b) Fixed-income securities and debt register claims			86,576	**811,669**		176,140	**1,205,520**
2. Current income from							
a) Shares and other non-fixed income securities			918			0	
b) Investments			34			5,342	
c) Shares in affiliated companies			0	**952**		0	**5,342**
3. Commission income				**124,252**			**121,414**
4. Net earnings on financial transactions				**0**			**93**
5. Other operating income				**1,197**			**1,427**
6. Income earned under profit and loss agreements				**27,064**			**0**
7. Net loss for the year				**140,602**			**0**
Total income				1,105,736			1,333,796

Notes

Accounting and valuation regulations

The individual financial statements of 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 in the notes, are provided in the notes.

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

The securities held under current assets 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.

Fixed asset securities were valued according to the moderate lower of cost or market principle; in the event of permanent reduction in value, write-backs were recorded. When a valuation unit was involved, it was valued at amortised cost.

No securities have been allocated to the trading stock.

In the reporting year, securities were reclassified from the liquidity reserve under current assets into fixed assets. There is therefore no change in the statement.

The investments have been recognised at purchase cost. Property, plant and equipment are reported at acquisition or production cost, reduced by ordinary 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 from more than 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 recognised at their 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 recognised at their expected recourse value.

Sufficient allowance has been made for risks arising from the lending business. The risk provision portfolio for the lending business recognised 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 for loans and advances without specific loan loss provisions. In addition, risk provisions were allocated for contingent liabilities and irrevocable loan commitments, both for individually established risks (specific loan loss provisions) and for impairments that have not yet been identified individually. Prepaid expenses and deferred charges and deferred income were established for expenses 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 IFRS 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 recognised in the balance sheet. Instead, their market values are disclosed in the notes. In comparison with 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 IFRS 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 recognised directly in a separate equity item.

Amortisation of premiums and discounts as well as processing fees that are similar in nature to interest is performed using the effective interest method under IFRS. 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 straight-line basis and processing fees impact on income at the time of collection.

In accordance with Section 248 (2) of the German Commercial Code *(HGB)*, self-constructed assets under fixed assets are not capitalised at production 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 assets

Loans and advances to banks and customers

Remaining term structure of loans and advances

	Due on demand	Maturity with agreed term or period of notice				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	269,128	530,744	481,994	75,847	22,214	8,978	1,388,905
(as at 31 Dec. 2008)	*229,865*	*917,895*	*350,092*	*184,786*	*28,860*	*41,990*	*1,753,488*
Loans and advances to customers	0	901,281	2,203,815	11,019,436	6,861,367	91,781	21,077,680
(as at 31 Dec. 2008)	*0*	*792,832*	*2,694,082*	*10,889,310*	*7,696,949*	*156,108*	*22,229,281*
Total	269,128	1,432,025	2,685,809	11,095,283	6,883,581	100,759	22,466,585
(as at 31 Dec. 2008)	*229,865*	*1,710,727*	*3,044,174*	*11,074,096*	*7,725,809*	*198,098*	*23,982,769*
in %	1	6	12	49	31	0	100

	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	1,142,959	0	1,142,959
Enterprises, in which KfW IPEX-Bank holds a stake	0	48,411	48,411
Subordinated assets	0	123,382	123,382

Bonds and other fixed-income securities

Listed/marketable securities

	31 Dec. 2009	31 Dec. 2008	Change
	EUR in thousands	EUR in thousands	EUR in thousands
Listed securities	2,907,218	3,704,476	–797,257
Unlisted securities	78,151	134,537	–56,387
Marketable securities	2,985,369	3,839,013	–853,644

The "Bonds and other fixed-income securities" item totalling EUR 2,985 million (previous year: EUR 3,839 million) does not contain any securities in affiliated enterprises or companies in which KfW IPEX-Bank has an equity stake. The portfolio includes securities amounting to EUR 1,013 million (previous year: EUR 936 million) which fall due during the year following the balance sheet date.

Shares and other non-fixed-income securities

Listed/marketable securities

	31 Dec. 2009	31 Dec. 2008	Change
	EUR in thousands	EUR in thousands	EUR in thousands
Listed securities	0	0	0
Unlisted securities	7,704	0	7,704
Marketable securities	7,704	0	7,704

A participation certificate is recognised under "Shares and other non-fixed-income securities". It is valued strictly at the lower of cost or market.

Fixed assets

Assets analysis

							Changes[1]	Residual book value	Residual book value
							2009	31 Dec. 2009	31 Dec. 2008
							EUR in thousands	EUR in thousands	EUR in thousands
Shares and other non-fixed-income securities							7,704	7,704	0
Investments							19,452	91,840	72,388
Bonds and other fixed-income securities							2,143,544	2,645,016	501,472
Total							2,170,700	2,744,560	573,860

	Purchase/ production costs[2]	Additions	Disposals	Transfers	Allo-cations	Depreciation/ impairment		Residual book value	Residual book value
						Total	2009	31 Dec. 2009	31 Dec. 2008
	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	46	254	35	0	0	14	10	251	7
Property, plant and equipment[2]	1,243	123	2	0	0	780	224	584	685
Sum	1,289	377	37	0	0	794	234	835	692
Total								2,745,395	574,552

[1] Including exchange rate changes
[2] Of which as at 31 December 2009: – total value of plant and equipment EUR 584 thousand
– total value of land and buildings used for the bank's activities EUR 0 thousand

Both bonds and other fixed-income securities as well as shares and other non-fixed-income securities intended as a permanent part of business operations, and so in principle held until maturity, have been included under securities treated as fixed assets.

During the reporting year, fixed-income securities with a nominal value of EUR 2,210 million were reclassified to fixed assets.

Bonds and other fixed-income securities were valued in accordance with the moderate lower of cost or market principle; as a result, write-downs amounting to EUR 18 million were avoided. EUR 10 million pertains to securities reclassified to fixed assets.

The book value of the marketable securities not valued at the lower of cost or market is EUR 2,631 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, Eschborn	24.8	71	–24
2. Movesta Development Capital Beteiligungsgesellschaft mbh, Düsseldorf	50.0	2,956	–7
3. Railpool GmbH, Munich	50.0	412	–588
4. Railpool Holding GmbH & Co. KG, Munich	50.0	–7,258	–85
	in %	USD in thousands	USD in thousands
5. Canas Leasing Ltd., Dublin, Irland	50.0	0	0
6. Freighter Leasing S.A., Luxembourg	22.2	14,797	530

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 340a (4) No. 2 of the German Commercial Code *(HGB)*, similar to the previous year.

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

Assets held in trust

	31 Dec. 2009		31 Dec. 2008	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	1,544,089	1,544,089	1,831,578	–287,489
Loans and advances to customers		20,973,502	23,420,233	–2,446,731
Investments		27,955	10,378	17,577
Shares		25,090	25,971	–881
Total		22,570,636	25,288,160	–2,717,524

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

Other assets

The other assets totalling EUR 11,419 thousand (previous year: EUR 88,449 thousand) chiefly relate to loans and advances to the financial authorities resulting from tax prepayments and tax refund claims amounting to EUR 7,204 thousand (previous year: EUR 44,275 thousand) as well as the acquisition of shares in Panda Ethanol amounting to EUR 2,657 thousand as part of a restructuring, whereby there is no intention to hold them long-term.

Prepaid expenses and deferred charges

Prepaid expenses and deferred charges include in particular upfront interest payments from swaps amounting to EUR 10,000 thousand (previous year: EUR 13,135 thousand) and accrued Hermes fees amounting to EUR 4,877 thousand (previous year: EUR 5,470 thousand).

Notes on liabilities

Liabilities to banks and customers

Maturities structure of liabilities

	Due on demand	Maturity with agreed term or period of notice				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
Liabilities to banks	14,015	3,942,293	4,187,677	10,135,495	2,499,099	100,585	20,879,164
(as at 31 Dec. 2008)	*75,345*	*4,921,029*	*3,022,929*	*11,221,584*	*4,199,272*	*299,875*	*23,740,034*
Liabilities to customers – Other liabilities	0	236,764	3,402	7,853	26,275	2,835	277,129
(as at 31 Dec. 2008)	*0*	*137,585*	*642*	*5,129*	*12,122*	*10,453*	*165,931*
Total	14,015	4,179,057	4,191,079	10,143,348	2,525,374	103,420	21,156,293
(as at 31 Dec. 2008)	75,345	5,058,614	3,023,571	11,226,713	4,211,394	310,328	23,905,965
in %	0	20	20	48	12	0	100

	Liabilities to		
	Banks	Customers	Total
	EUR in thousands	EUR in thousands	EUR in thousands
Of which to:			
Shareholders	0	0	0
Affiliated enterprises	20,873,819	0	20,873,819
Enterprises in which KfW IPEX-Bank holds a stake	0	4,808	4,808

Liabilities held in trust

	31 Dec. 2009	31 Dec. 2008	Change
	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	22,501,418	25,283,177	–2,781,759
Liabilities to customers			
a) Savings deposits	0	0	0
b) Other liabilities			
ba) Due on demand	0	0	0
bb) With agreed term or period of notice	69,218	4,983	64,235
Total	22,570,636	25,288,160	–2,717,524

Other liabilities

Other liabilities totalling EUR 8,214 thousand (previous year: EUR 7,547 thousand) chiefly contain the balancing items for the foreign currency translation of derivative hedges totalling EUR 4,417 thousand (previous year: EUR 0 thousand), pro rata interest for subordinated liabilities amounting to EUR 2,070 thousand (previous year: EUR 5,794 thousand) as well as liabilities to the financial authorities for income tax payable amounting to EUR 849 thousand.

Subordinated liabilities

KfW has granted KfW IPEX-Bank GmbH subordinated loans amounting to USD 1,740 million (previous year: USD 1,740 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 terminate 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 obliged to repay the subordinated loans ahead of schedule. The conditions for the subordination of these funds correspond to the requirements of Section 10 (5a) of the German Banking Act (Kreditwesengesetz, KWG).

Interest expenses for subordinated loans in 2009 amounted to the equivalent of EUR 26 million.

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

Profit participation rights

KfW Beteiligungsholding GmbH granted KfW IPEX-Bank GmbH profit participation capital amounting to USD 650 million (EUR 451 million) on 1 April 2009. The profit participation right matures on 31 December 2018 and bears interest at the 12-month USD LIBOR plus a premium of 5.4 %. The premium increases by 1.0 % to 6.4 % if IPEX does not terminate the profit participation right as of 31 December 2014.

The profit participation right fulfils the requirements of Section 10 (5) of the German Banking Act *(Kreditwesengesetz, KWG)*.

The holder of the profit participation certificate has an interest claim that precedes the dividends of shareholders. The interest claim is reduced or ignored if a distribution would result in a net annual loss. Repayment is at nominal value, subject to absorbing losses.

For 2009 there is no interest payment on account of the net annual loss. Moreover, in accordance with the contractual conditions, the profit participation right must absorb part of the net annual loss of KfW IPEX-Bank GmbH. This reduced the carrying value by EUR 27 million to the equivalent of EUR 424 million.

Provisions

As well as the provisions for pensions and similar commitments amounting to EUR 47,535 thousand (previous year: EUR 42,088 thousand) and provisions for taxes amounting to EUR 6,366 thousand (previous year: EUR 6 thousand), additional provisions amounting to EUR 133,975 thousand (previous year: EUR 37,352 thousand) were recognised as at 31 December 2009. The latter related in particular to provisions for credit risks amounting to EUR 115,733 thousand and liabilities to staff totalling EUR 13,069 thousand.

Deferred income

The deferred income totalling EUR 32,617 thousand (previous year: EUR 54,325 thousand) chiefly comprises discounts from receivables purchases amounting to EUR 27,301 thousand (previous year: EUR 47,505 thousand) as well as upfront interest payments from swaps that have been received but do not yet impact on income amounting to EUR 2,864 thousand (previous year: EUR 3,273 thousand).

Other required disclosures on liabilities and equity

Contingent liabilities – Guarantees

Business sector	31 Dec. 2009	31 Dec. 2008	Change
	EUR in millions	EUR in millions	EUR in millions
Power, Renewables and Water	639	528	111
Manufacturing Industries, Retail, Health	504	375	129
Rail and Road	397	356	41
Shipping	245	265	–20
Basic Industries	219	215	4
Financial Institutions, Trade & Commodity Finance	120	135	–15
Ports, Airports, Construction Industry/PPP	100	66	34
Leveraged Finance, Mezzanine, Equity	45	55	–9
Telecommunications and Media	39	60	–21
Aviation	0	0	0
Total	2,308	2,054	254

The new guarantees given in the 2009 financial year amount to EUR 633 million. Altogether EUR 379 million was redeemed in 2009.

Other obligations

Irrevocable loan commitments

Business sector	31 Dec, 2009			31 Dec, 2008			Change		
	Cash loans	Guaran-tees	Total	Cash loans	Guaran-tees	Total	Cash loans	Guaran-tees	Total
	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions
Shipping	1,288	310	**1,598**	2,621	188	**2,809**	–1,333	122	**–1,211**
Manufacturing Industries, Retail, Health	1,340	81	**1,421**	1,153	110	**1,263**	187	–29	**158**
Power, Renewables and Water	731	182	**913**	819	113	**932**	–88	69	**–19**
Basic Industries	741	122	**863**	814	195	**1,009**	–73	–73	**–146**
Aviation	562	1	**563**	607	1	**608**	–45	0	**–45**
Telecommunications and Media	400	17	**417**	324	9	**333**	76	8	**84**
Rail and Road	316	69	**385**	530	213	**743**	–214	–144	**–358**
Ports, Airports, Construction Industry/PPP	230	105	**335**	276	181	**457**	–46	–76	**–122**
Leveraged Finance, Mezzanine, Equity	139	16	**155**	172	10	**183**	–33	6	**–28**
Financial Institutions, Trade & Commodity Finance	60	52	**112**	10	1	**11**	50	50	**101**
Total	5,807	955	6,762	7,326	1,022	8,348	–1,519	–67	–1,586

Required disclosures on the income statement

Geographical markets in accordance with Section 34 (2) No. 1 of the Ordinance Regarding the Accounting System for Banks *(RechKredV)*

In the 2009 financial year the revenues from Frankfurt am Main and London were as follows:

	Frankfurt	London	Total
	EUR in thousands	EUR in thousands	EUR in thousands
Interest income	809,233	2,436	**811,669**
Current income from			
a) Shares and other non-fixed-income securities	919	0	**919**
b) Investments	34	0	**34**
c) Shares in affiliated companies	0	0	**0**
Commission income	121,010	3,242	**124,252**
Net result on financial transactions	0	0	**0**
Other operating income	1,193	4	**1,197**
Total	932,389	5,862	938,071

The figures from the previous year are not disclosed since the branch established on 1 October 2008 in London was being developed and therefore not yet operational in the 2008 financial year.

Other operating income

Other operating income amounting to EUR 1,197 thousand (previous year: EUR 1,427 thousand) chiefly relates to revenue for services provided to Group companies amounting to EUR 806 thousand as well as reversals of provisions amounting to EUR 290 thousand.

Taxes on income

The taxes on income item totalling EUR 21,889 thousand (previous year: EUR 4,778 thousand) is made up of corporate income tax/capital gains tax including a solidarity surcharge totalling EUR 10,682 thousand, trade tax totalling EUR 11,142 thousand and foreign withholding tax of EUR 65 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 2009.

Expenses and income resulting from currency conversions have been included in the net result 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. These had no effect on the income statement.

As at 31 December 2009 total assets denominated in foreign currency converted in accordance with Section 340h (1) of the German Commercial Code *(HGB)* amounted to EUR 24 billion (previous year: EUR 27 billion), of which EUR 12 billion was held in trust.

The total liabilities denominated in foreign currency amounted to EUR 24 billion (previous year: EUR 27 billion), of which EUR 12 billion was held in trust.

Other financial liabilities

Total payment obligations amounting to EUR 53 million arose from equity finance (previous year: EUR 73 million).

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 recognised in the balance sheet at their nominal value as contingent liabilities.

In the following table, the calculation of market values for all contract types is based on the market valuation method. It discloses the positive and negative fair values of derivative positions as at 31 December 2009.

Derivative transactions – volumes

	Nominal values		Fair values positive	Fair values negative
	31 Dec. 2009	31 Dec. 2008	31 Dec. 2009	31 Dec. 2009
	EUR in millions	EUR in millions	EUR in millions	EUR in millions
Contracts with interest rate risks				
Interest rate swaps	7,548	7,481	99	326
Total	7,548	7,481	99	326
Contracts with currency risks				
Cross-currency swaps	160	270	8	9
FX swaps	100	39	2	2
Forward exchange swaps	66	109	1	1
Total	326	418	11	12
Shares and other price risks	0	0	0	0
Credit derivatives	40	40	0	0
Total	7,914	7,939	110	338

Derivative transactions – maturity

	Interest rate risks		Currency risks		Credit derivatives	
	31 Dec. 2009	31 Dec. 2008	31 Dec. 2009	31 Dec. 2008	31 Dec. 2009	31 Dec. 2008
	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions
Maturity						
up to 3 months	267	95	121	42	0	0
more than 3 months to 1 year	602	567	40	207	0	0
more than 1 year to 5 years	4,094	3,798	124	107	40	40
more than 5 years	2,586	3,021	41	62	0	0
Total	7,549	7,481	326	418	40	40

Derivative transactions – counterparties

	Nominal values		Fair values positive	Fair values negative
	31 Dec. 2009	31 Dec. 2008	31 Dec. 2009	31 Dec. 2008
	EUR in millions	EUR in millions	EUR in millions	EUR in millions
Counterparties				
OECD banks	6,381	6,606	18	331
Banks outside OECD	0	0	0	0
Other counterparties	1,533	1,333	92	7
Public sector	0	0	0	0
Total	7,914	7,939	110	338

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 5,609 million as at 31 December 2009 (previous year: EUR 5,089 million). In addition, financial guarantees amounting to EUR 35 million were administered.

	31 Dec. 2009	31 Dec. 2008	Change
	EUR in millions	EUR in millions	EUR in millions
Market business	2,664	2,326	338
E&P promotional business	2,945	2,763	182
Total	5,609	5,089	520

These loans relate to syndicated loans in which KfW IPEX-Bank handles the loan accounting as 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 end of quarter figures during the 2009 financial year.

	2009	2008	Change
Female employees	244	219	25
Male employees	277	269	8
Staff not covered by collective agreements	431	391	40
Staff covered by collective agreements	90	97	–7
Total	521	488	33

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 2009 financial year was EUR 2,014 thousand. Details on the compensation of the members of the Board of Managing Directors for the 2009 financial 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)	390	12	402
Michael Ebert	390	15	405
Christiane Laibach	355	9	364
Christian K. Murach[1)]	426	12	438
Markus Scheer	390	14	403
Total	1,951	63	2,014

[1)] incl. one-off special payment

The total compensation paid to members of the Board of Supervisory Directors was EUR 202 thousand. In addition, attendance fees amounting to EUR 63 thousand were paid.

The total amount of loans to members of the Board of Managing Directors amounted to EUR 0.4 thousand as at 31 December 2009. No interest is charged on the loan as it has a residual (capital) amount of EUR 2.6 thousand or less.

Mandates held by statutory representatives or other employees on the supervisory boards of major corporations (as at 31 December 2009)

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) until May 2009

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)

Werner Gatzer
(Secretary of State, Federal Ministry of Finance)

Wolfgang Kroh
(Member of the Managing Board of KfW Bankengruppe)
until 30 September 2009

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

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

Dr Ulrich Schröder
(Member of the Managing Board of KfW Bankengruppe)
from 1 October 2009

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

Christian K. Murach,
Sulzbach (Taunus)

Markus Scheer,
Hofheim am Taunus

Frankfurt am Main, 9 February 2010

Michael Ebert

Christiane Laibach

Heinrich Heims
(Speaker)

Christian K. Murach

Markus Scheer

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 2009. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Company's management. 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 § 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 the Company 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 management, as well as evaluating the overall presentation of the annual financial statements and 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 give a true and fair view of the net assets, financial position and results of operations of the Company 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 Company's position and suitably presents the opportunities and risks of future development.

Frankfurt of Main, 4 March 2010

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Other sources of photographs
Bhushan Power & Steel Ltd., Orissa, India (page 19)
NAWARO BioEnergie AG, Leipzig (page 20)
Railpool GmbH, Munich (subject: train, page 21)
Charlie Fawell, London (subject: offshore wind park, page 22)
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