ANNUAL REPORT
2011

Bank aus Verantwortung

KfW IPEX-Bank

WE SUPPORT INTERNATIONALISATION, EMPLOYMENT AND GROWTH

German and European products and services stand for quality and reliability worldwide. Our mission is to transform this potential into growth. With tailor-made financings we accompany large, as well as small and medium-sized German and European enterprises through all project phases, both in industrialised and emerging countries. Our financings in the areas of export industry, climate protection, infrastructure and the supply of raw materials are founded on deep-rooted sector knowledge and structuring competence, complemented by our viable international network: Strengthening the market position of our customers in global competition is our motivation, growth and safeguarding employment is our goal – as it has been for nearly 60 years.

KFW IPEX-BANK

Contents

Page 10 Export finance

Page 22 Infrastructure

Page 16 Environmental and climate protection

2011

VOLUME OF LENDING OF THE EXPORT AND PROJECT FINANCE BUSINESS AREA

	2011
Volume of lending of the business area[1)] by business units	EUR in billions
Shipping	14,4
Aviation and Rail	11,9
Power, Renewables and Water	10,5
Transport and Social Infrastructure	7,3
Basic Industries	7,2
Manufacturing Industries, Retail, Health, Telecommunications	6,6
Financial Institutions and Trade & Commodity Finance	2,1
Leveraged Finance, Mezzanine, Equity	1,1
Total	61,1

[1)] *Managed by KfW IPEX-Bank GmbH*

KFW IPEX-BANK GMBH KEY FIGURES

	2011	2010
Balance sheet key figures[1)]	EUR in billions	EUR in billions
Total assets	46,4	45,5
Volume of lending	29,4	29,5
Contingent liabilities	2,2	2,1
Irrevocable loan commitments	5,5	5,8
Assets held in trust	22,6	21,8
Volume of business (total assets, contingent liabilities and irrevocable loan commitments)	54,2	53,4
Equity	2,6	2,6
Equity ratio (%)	5,6	5,7
Results	EUR in millions	EUR in millions
Operating income before risk provisions/valuations	258	250
Risk provisions and valuation	– 34	– 33
Net income	30	145
Result of Export and Project Finance business area (segment report consolidated financial statements of KfW Bankengruppe)	623	889
Number of employees (including Management Board)	531	530

[1)] *In agreement with the competent regulatory authority, KfW IPEX-Bank GmbH will again recognise in the balance sheet E&P promotional business (assets held in trust and liabilities held in trust) administered for KfW under a dispositive trust (Ermächtigungstreuhand). The previous year's figures have been restated to make them more comparable.*

DEAR READERS

We can look back on a successful 2011. In view of the challenging economic conditions seen during the past year, we have concentrated on our strengths and our mission to support the German and European export economy by providing effective financings in global competition. The success has validated our long-term, sustainability-oriented business approach. We are proud that through our work we have been able to contribute not only to maintaining and expanding German economic strength and employment, but also to improving ecological living conditions – both in Germany and in the destination countries of exports.

The global economic upswing seen in the last few years has since lost momentum. Many fear that the fragile state of the financial markets and continuing structural and debt problems in the euro zone will have a negative impact on the real economy, which until recently still appeared extremely robust. Furthermore, the refinancing difficulties encountered by the banks are likely to continue, and will entail further adjustments to their portfolio structures in light of future regulatory requirements. We expect the high demand for our medium-term and long-term financing to continue unchanged, particularly in view of the ongoing solid growth of the emerging economies which constitute important sales markets for the domestic export economy.

Particularly in global competition, German and European companies are reliant on strong banks which by means of their financings make investment projects possible in the first place.

Cooperation between the financial sector and the export economy is therefore fundamental to the economic strength and prosperity of our country. German industry – from large companies to SMEs – is and will remain in the future heavily geared towards exports and, particularly in view of the crisis, ongoing international demand for German goods appears all the more valuable. Following an increase of over 11 % in 2011, German exports exceeded the EUR 1 trillion mark for the first time, now making up almost 10 % of world trade. The fact that our country has escaped severe downturns in its economy is thanks primarily to the export economy, upon which almost half of our economic output depends.

It is the aim of KfW IPEX-Bank in this environment to strengthen its market position as a leading specialist financier. As a structuring expert with sector expertise, many years' experience and in-depth market knowledge, we make a significant contribution to the global business success of our customers. Thanks to our regional presence in the most important foreign markets for the German and European export industries, and as a member of the international network of KfW Bankengruppe, we can support companies worldwide as a reliable partner for even the most demanding financing needs – from the conception phase of a project through to the conclusion of loan agreements and beyond. As well as supporting the export economy, our activities also focus on the financing of environmental and climate protection projects, transport means and infrastructure projects, as well as projects designed to supply German industry with raw materials.

"The way in which our many years of experience and skilled precision are used in the development and structuring of sophisticated project and export finance is akin to the way in which a manufacturer operates. With our tailored solutions, we make a reliable contribution to ensuring that many projects can actually be realised in the first place."

Harald D. Zenke
Speaker of the Management Board of KfW IPEX-Bank

We see it as our particular responsibility to support projects and planned exports that will have a positive impact on the environment and climate. The environmental and social impact assessment of all projects which we finance is based on our environmental and social guidelines, which have now been in place for over 11 years. In view of the global scale of our work and our associated international ecological, social and economic responsibility, KfW IPEX-Bank is a long-standing member of the Equator Principles Financial Institutions (EPFI).

Thanks to the tremendous dedication and commitment of our employees, our long-term approach and a forward-looking risk policy, we were extraordinarily successful in achieving our mission in 2011. The volume of new commitments for the reporting year totalled EUR 11.4 billion. This was in addition to EUR 2.0 billion in loans for refinancing banks from CIRR ship financing. The highest level of commitments was achieved in the Power, Renewables and Water business sector with EUR 2.1 billion, followed by Shipping as well as Aviation and Rail, which each achieved EUR 2.0 billion. This positive trend in commitments was due both to the high propensity of companies to invest, and to the relative restraint of banks and other capital market participants in individual areas.

Last year's success is also reflected in our financial performance. The operating income before taxes of KfW IPEX-Bank GmbH totalled EUR 224 million. The Export and Project Finance business area, for which we are responsible, contributed EUR 623 million to the consolidated earnings of KfW in 2011, which is far above average when compared to previous years. As such, this business area continues to represent an important source of revenue for KfW Bankengruppe and makes an active contribution to securing KfW's long-term promotional capacity.

The course we have taken is also confirmed by the findings of a customer survey carried out by a market research institute: we received very high marks in both overall satisfaction and customer loyalty – particularly in view of comparable surveys. In terms of customer perception, the qualities "Reliability", "Specialist expertise" and "Sector expertise", as well as "Quality of advice" of KfW IPEX-Bank were extremely positive.

Looking back on the past year, we would like to express our sincerest thanks to Michael Ebert, who stepped down as a member of the Management Board of KfW IPEX-Bank as of 31 March 2011, for his outstanding work on the Board. He has moved to KfW Bankengruppe, where he has taken over the role of Chief Compliance Officer and Head of Compliance. We can look back with pleasure at the time spent working together, and wish him all the best and every success in his new challenges at the parent company of our bank.

It remains our aim for the future to strengthen our market position on a sustainable basis as an experienced and effective specialist and a reliable partner in project and export finance, in an environment that continues to be economically challenging and dominated by competition.

In 2012, we will also focus on providing financings to support the German and European export economy and further develop economic and public infrastructure, as well as on financing for projects in the environmental and climate protection sectors and projects to secure the supply of raw materials in Germany.

A vital prerequisite for all of this is the commitment, dedication, and huge level of expertise and experience of our employees. It is of the utmost importance to us that we maintain, promote and build on this. We therefore attach great significance to ensuring a work-life balance, which is emphasised by the fact that we have been named as a family-friendly company by the Hertie Foundation on several occasions.

Christiane Laibach

Christian K. Murach

Markus Scheer

Harald D. Zenke
(Speaker)

Harald D. Zenke
(Speaker)

Markus Scheer

Christiane Laibach

Christian K. Murach

CLOSE COOPERATION DURING A SUCCESSFUL YEAR

The 2011 financial year was characterised by close cooperation with the Management Board. It consistently informed the Board of Supervisory Directors about all significant developments of KfW IPEX-Bank GmbH from its perspective in a timely and comprehensive manner.

We regularly monitored and consulted with the Management Board regarding 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, when required, after comprehensive consultation and review.

In the 2011 financial year, a total of four regular meetings of the Board of Supervisory Directors were held. In each of these, the Management Board reported on the ongoing performance of the business, current issues and plans for new business, before presenting the corresponding risk and performance reports and the quarterly financial results.

At the first meeting on 23 March 2011, we reviewed the financial statements for the previous financial year and issued KPMG AG Wirtschaftsprüfungsgesellschaft – subject to appointment as auditor by the shareholder – with the audit mandate for the 2011 financial year. We approved the Report of the Board of Supervisory Directors and, for the first time, the Public Corporate Governance Report together with the Declaration of Compliance. We also advised the shareholders to approve the amendments to the rules of procedure for the members of the Management Board, required in connection with the project designed to manage the E&P business area of KfW. Further recommendations related to the extension of the Management Board contracts of Mr Murach and Mr Scheer by a further five years, and the performance-related bonus to be paid to the Management Board for the past financial year, based on the overall achievement of targets. We acknowledged the amended schedule of responsibilities for the Management Board effective from April 2011. We also passed an anticipatory resolution to approve the raising of loans on a case-by-case basis by KfW IPEX-Bank GmbH with the EIB, and acknowledged the results of the efficiency audit of the Board of Supervisory Directors and the reports of the Loan, Executive and Audit committees.

At the meeting on 1 July 2011, we were informed of the balance sheet accounting for the trust business of KfW IPEX-Bank GmbH as agreed with the German Federal Financial Services Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht, BaFin). We also discussed the status of the project to develop staff capacity and its effect on the composition of our Board through the need to introduce a Board of Supervisory Directors with one-third co-determination, as well as the planned acquisition of shares in a newly created strategic investment. Additionally, we discussed a range of specific topics, such as the positive progress of the follow-up audit relating to the Internal Ratings Based Approach (IRBA), and the review of the protection of deposits by the Association of German Public Banks (Bundesverband Öffentlicher Banken Deutschlands, VÖB). We acknowledged the unanimous decision taken by means of circulation regarding the acquisition of shares in the strategic investment AKA Ausfuhrkredit GmbH, the report on the strategic investment Railpool GmbH and the reports of the Loan and Audit Committees, as well as the report from the securities compliance officer.

At the meeting on 23 September 2011, we dealt with risk provisions, planning for the 2012 financial year and the impact of Basel III on the equity structure of KfW IPEX Bank GmbH, as well as with the revenue and risk situation and business performance, which are discussed regularly. We were also presented with the idea of forming a company advisory board. We acknowledged the presentation of the Management Board on the planned increase in capacity and the associated impact on the size and composition of the Board of Supervisory Directors, and supported the Management Board in the planning and implementation of this project. Following a clarification of the questionnaires concerning the efficiency audit of the Board of Supervisory Directors pursuant to the Public Corporate Governance Code (PCGC), we acknowledged the reports from the Audit and Loan Committees.

Following a discussion of the business performance, revenue, and risk situation of the bank, the now confirmed composition of the newly-formed company advisory board and the final capitalisation strategy were presented and discussed at the meeting on 24 November 2011. The meeting was also dominated by discussion of the 2012 group business area planning and the business and risk strategy for 2012. Reports were received on the current status of the strategic investment in Railpool GmbH, together with a customer survey and the remuneration system of KfW IPEX-Bank GmbH. The Power, Renewables and Water business sector also presented the main cornerstones of its strategy, portfolio, and risk and market situation. Reports from the Audit and Loan Committees were discussed, and we also made decisions regarding the funding volume of the bank for the 2012 financial year. Furthermore, the agreed objectives for the Management Board were discussed, and we were informed that the results from the questionnaires regarding the efficiency audit of the Board of Supervisory Directors for the current reporting year were being evaluated.

There were various personnel changes in the Board of Supervisory Directors during the reporting year: Dr Schröder stepped down from his position on the Board of Supervisory Directors with effect from 31 March 2011, and his successor Mr Loewen took up office with effect from 1 July 2011. State Secretary Dr Pfaffenbach left the Board of Supervisory Directors as of 31 May 2011. State Secretary Homann was named as his successor and assumed this mandate with effect from 1 July 2011. We thank these former members for their commitment and their work.

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 GmbH. The Board of Supervisory Directors was regularly informed regarding the work of these committees.

There were no conflicts of interest in the voting process of the Board of Supervisory Directors and its committees during the financial year.

The Audit Committee discussed the results of the annual audit in its meeting on 19 March 2012 and agreed them; thereafter, it recommended that the Board of Supervisory Directors approve the annual financial statements and the management report. The discussion centred on the audit report (partial audit report II) of the KPMG AG Wirtschaftsprüfungsgesellschaft covering the audit of the annual financial statements as of 31 December 2011 that were provided by the Management Board on 14 February 2012, and the management report for the 2011 financial year. KPMG issued an unqualified audit opinion on 1 March 2012.

After the final review by the Board of Supervisory Directors, we approved the result of the audit, the annual financial statements and the management report in our first regular meeting on 19 March 2012. We have presented the annual financial statements to the general shareholders' meeting for approval.

The Board of Supervisory Directors endorses the recommendation of the Management Board to allocate net profit for the year of EUR 30.1 million to retained earnings.

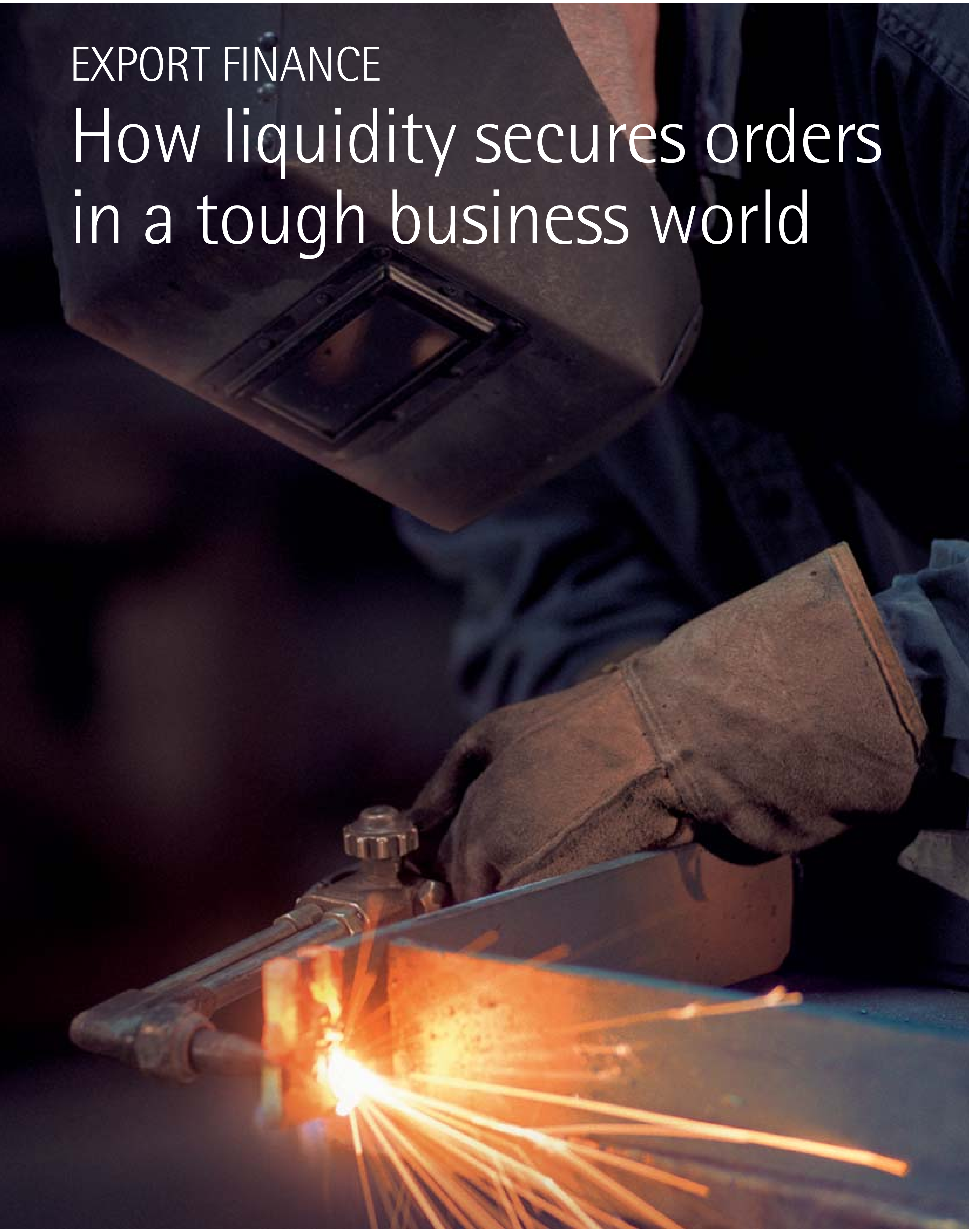
We would like to thank the Management Board and all the employees for their commitment and hard work during the 2011 financial year.

Frankfurt am Main, 19 March 2012
For the Board of Supervisory Directors

Dr Norbert Kloppenburg
Chairman

EXPORT FINANCE

How liquidity secures orders in a tough business world



EFFECTIVE FINANCINGS FOR A SUCCESSFUL FUTURE IN GLOBAL COMPETITION

In order for the export economy to realise its full potential, companies require a reliable financing partner for their specific business in addition to access to the global markets. An example of this is P+S Werften, which is manufacturing five ice-class freighters on behalf of the Greenland-based shipping company Royal Arctic Line A/S. The specialised Arctic vessels, built at shipyards in Stralsund and Wolgast, are designed to be used for scheduled services, including between the remote communities along the coast of Greenland. The export financing provided by KfW IPEX-Bank to the Greenland-based shipping company will therefore help not only to secure jobs in an innovative industry in Germany and to modernise maritime infrastructure, but it will also ensure that the population of Greenland is supplied with basic commodities throughout the year.

LEADERS IN EXPORT AND PROJECT FINANCING

KfW IPEX-Bank provides the German and European export economy with tailored solutions. Its in-depth sector expertise and structuring competence assure an excellent market position for its customers in international competition – not just for large companies and their customers, but also for SMEs as an important pillar of our economic system.

KfW IPEX-Bank contributes to maintaining the competitiveness and internationalisation of German and European export companies with effective financings.

Exports secure economic strength and employment

The German export economy is setting new records, undeterred by all the turbulence caused by the sovereign debt crisis and the slowing of global economic growth momentum: exports increased by over 11 % in 2011 and have exceeded the EUR 1 trillion mark for the first time over the year as a whole. Our export economy not only accounts for almost half of German economic output – it also forms the basis of around 10 % of total world trade. The fact that Germany at present remains practically untouched by economic downturns is primarily thanks to foreign trade, which not only secures existing jobs, but also creates additional growth and drives innovation.

The Federation of German Wholesale, Foreign Trade and Services (Bundesverband Großhandel, Außenhandel, Dienstleistungen, BGA) expects renewed growth in exports of at least 6 % to just over EUR 1.1 trillion in 2012, despite the general slowdown in the world economy. Furthermore, according to a recent survey carried out by the Association of German Chambers of Industry and Commerce (Deutscher Industrie- und Handelskammertag, DIHK), the export economy is once again expected to grow in 2012, particularly in exports to the BRIC countries of Brazil, Russia,

RELIABLE LIQUIDITY ENSURES SECURITY FOR DEMANDING PROJECTS

Delayed payments or unavoidable delays in project plans are all that are needed to cause companies liquidity problems which may threaten their very existence. For it is precisely export transactions, due to their global dimension, that often acquire a dynamic of their own that is frequently difficult to calculate. In a world economy that is converging at an increasingly rapid rate, the export economy therefore depends on reliable, financially-sound partners that ensure the success of a project. For this is the only way that companies can concentrate on their core business - the production of goods and provision of services - from the planning stage right up to completion and delivery.

In this context, KfW IPEX-Bank provides its customers – from larger-scale SMEs geared towards exports to groups listed on the DAX – with tailored financing solutions that ensure sufficient liquidity throughout the entire project duration. An example of this is the classic buyer's credit, where the bank grants a loan to the foreign buyer of German capital goods such as machinery and equipment. This is generally paid out directly to the German exporter. As such, the exporter receives the liquidity required to pay for preliminary products and wages already at the time of partial delivery. In this way, we set ourselves apart in terms of our reliability and financial strength, since we consider ourselves as a manufacturer in the best sense of the word – as symbol of individuality and quality. This is guaranteed by both our long-term, sustainability-oriented business model and our affiliation with KfW Bankengruppe, which commits us to the values of a promotional bank.

Around the world, the German and European origins of goods and services signify quality and reliability. It is KfW IPEX-Bank's mission to translate this potential into growth.

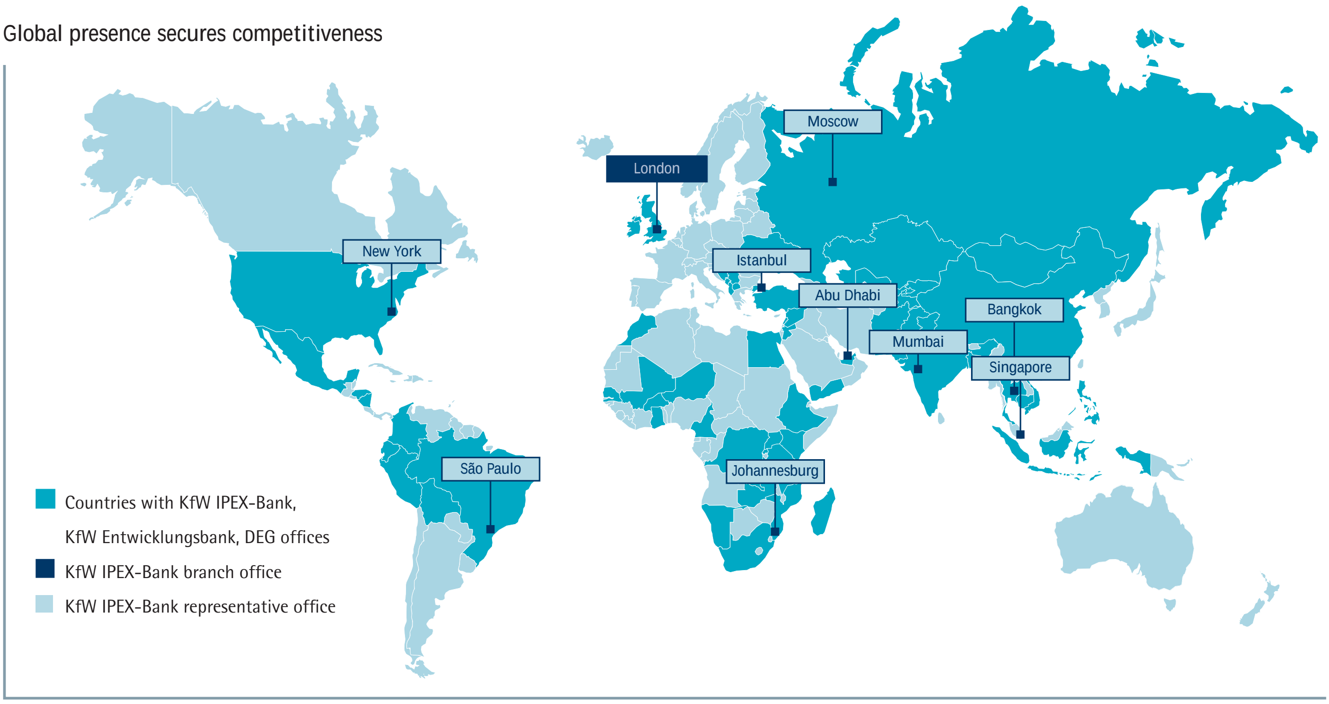
India and China, despite economic uncertainties. Exports here already experienced above-average growth in 2011. According to the *DIHK* survey, two thirds of companies intend to expand their foreign business activities even further. In this respect, even those companies that have moved their production activities abroad appear much more willing to continue hiring staff at their German sites as well, compared to companies that up to now have restricted themselves to business within Germany.

Strong partnership between the financial sector and real economy

The opportunities presented by the export economy can only be utilised on a sustainable and profitable basis if companies have reliable sources of financing in addition to free trade and access to target markets. KfW IPEX-Bank has been successfully supporting German and European companies in their export projects for almost 60 years. Its services range from classic tied export loans to complex structured finance models in local currency. A customer survey carried out at the end of 2011 found that companies have great regard for KfW IPEX-Bank's many years' experience in export finance, financing of projects in the environmental and climate protection sectors and infrastructure projects, as well as its sector expertise. Securing the supply of raw materials for our industry is another focus of the bank's activities.

In a world economy increasingly dominated by international competition, companies rely on strong and reliable banks that support them in foreign markets. Here, the core function of banks lies in making investment projects in the real economy possible in the first place by providing finance, so that companies can concentrate on their core skills – the production of goods and services. In so doing, the banks secure the reliable and prompt provision of liquidity and reduce risks relating to the creditworthiness of the foreign importer, its trading partners or cross-border country risks.

Global presence secures competitiveness



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

With its export financings, KfW IPEX-Bank contributes to securing employment in Germany and Europe and improving living conditions in the destination countries.

Commercial bank with a statutory mission

Promotion of the export industry is part of the statutory mission of KfW. KfW IPEX-Bank has the remit to fulfil this mission within KfW Bankengruppe as it is responsible for the Export and Project Finance business area. This involves supporting and strengthening the German and European economy on a sustainable basis against the backdrop of advancing globalisation. As a legally independent group subsidiary, KfW IPEX-Bank combines the strength of a successful bank with the values of a promotional institution, which includes the commitment to sustainability and social responsibility.

Tailored financings for diverse export projects

With its individual finance solutions, which it develops and implements together with its customers, KfW IPEX-Bank also makes a significant contribution to the successful marketing of key German and European technologies to the world markets. For example, it is involved in financing the construction of the new IPP Qurayyah power plant in the Kingdom of Saudi Arabia, which with an installed capacity of around four gigawatts will be one of the largest state-of-the-art gas and steam power plants in the world.

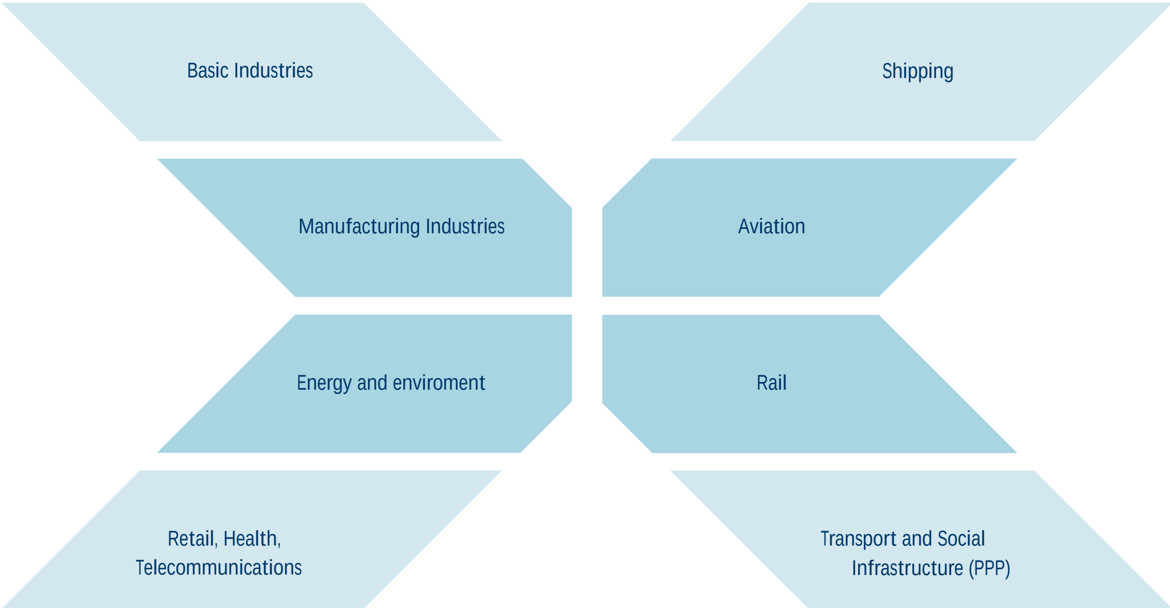
With an export loan totalling almost EUR 100 million, the bank is supporting the export of high-tech German products while at the same time contributing to the protection of the environment and climate: this is because highly-efficient Siemens gas turbines, manufactured in Germany with the involvement of a number of mid-sized suppliers, are in operation at the heart of the facility. These ensure reduced CO_2 emissions through high efficiency levels. The project is also an important step for the companies involved into the growth market that is Saudi Arabia.

Supporting promising services combined with promoting exports is the main focus of the EUR 30 million loan granted to the leading Russian leasing company, Europlan. With over 28,000 active leases, the company is the largest manufacturer-independent lessor of automobiles

Markus Scheer

"In view of increasing global competition, export companies rely on financially-sound partners that secure sufficient liquidity with their loans during the construction phase or soon after delivery. We develop tailored project and export financings that help to ensure that investment projects can be carried out successfully."

Future viability by focusing on strategic sectors



As a specialist financier for the German and European economy, KfW IPEX-Bank focuses on the areas where its particular strengths lie, thus securing a competitive edge and market positions on the global markets.

in Russia and a long-standing client of KfW IPEX-Bank. The dedicated finance is intended for the supply of cars from a range of German and European manufacturers to Russia. The vehicles acquired by Europlan are to be rented to small- and medium-sized Russian business customers as well as to major clients in the west and their Russian branches.

Opportunities for globalisation including the SME sector

Based on its in-depth regional market knowledge and many years' experience, KfW IPEX-Bank also makes a conscious effort to operate in markets where it is difficult to access finance.

Overseas countries are not only an important sales market for large companies with international operations, but also for specialist SMEs: the survey entitled "Mittelständler nutzen Globalisierungschancen" (SMEs exploit opportunities for globalisation) carried out by KfW shows that around one third of all German SMEs exported abroad in 2010. Today, SMEs are already generating around 10 % of their revenues through the export of goods and services – and this percen-tage is rising. And according to the survey, looking ahead to 2015, more than half of those SMEs that are already active abroad are planning to step up and expand their foreign activities.

It is KfW IPEX-Bank's mission to support this essential cornerstone of the national economy with an appropriate supply of financing. Domestic SMEs directly benefit from this business model, since they have often acquired a leading market position in international competition, and produce and market worldwide. However, there is also an indirect effect – as suppliers to large-scale manufacturers with global operations, SMEs are to a large extent part of the value added chain.

ENVIRONMENTAL AND CLIMATE PROTECTION

To achieve success at the very top, headwinds also need to be taken into account

RESPONSIBILITY FOR SUSTAINABLE ENVIRONMENTAL AND CLIMATE PROTECTION

"Environmental and climate protection" and the "energy turnaround" are right at the top of the global political agenda, and represent some of the biggest challenges of the 21st century. By providing financings in the area of renewable energy production, KfW IPEX-Bank is making a significant contribution to achieving national, European and global environmental and climate protection targets – such as the major wind farm project for the production of renewable energy in the Canadian province of Quebec. KfW IPEX-Bank is providing financing here as part of an international consortium of eight banks for the construction and operation of the Seigneurie de Beaupré wind farm. This comprises 126 wind turbines which, when operated at full capacity, will be able to supply green electricity for the equivalent of around 150,000 households typical of the local region.

KfW IPEX-Bank's financings designed to support the energy turnaround underline its sense of responsibility and commitment to improving ecological living conditions.

Competent partner with many years' experience

With its many years' experience in the financing of innovative future technologies in the environmental and climate sector, KfW IPEX-Bank supports its customers as a reliable and competent partner, from the initial idea to the application of the technologies in practice. In the past year alone, we have granted loans totalling EUR 1.7 billion for investment in environmental and climate protection. As a bank bound by the statutory mission of KfW, we also take particular responsibility for the provision of support to bring about far-reaching economic and social change – on a national, European and global level.

An example of our commitment to environmental protection is the finance provided for the coking plant expansion at Hüttenwerke Krupp Mannesmann GmbH (HKM) in Duisburg, with a total investment volume of around EUR 400 million. The technology being deployed conforms to the latest standards, with environmental performance levels which satisfy the strict criteria for making finance available under the ERP Environmental and Energy Efficiency Programme.

Vision for the future in environmental and climate protection projects

With its activities in the area of environmental and climate protection, KfW IPEX-Bank is one of the world's largest providers of financings for investment in renewable energies. Since 2003, an expert team consisting of finance specialists and technical experts has worked to ensure that the technically-demanding and high-risk generation of offshore wind energy would be actually bank- and investment-ready in the first place. Without the willingness to invest in the development of this market in the long term, offshore projects in Germany would not have made anywhere near

PROVEN ANALYSIS METHODS FOR FUTURE-ORIENTED RISK MANAGEMENT

Uncertainties in the global economy, changes to the competitive situation on our own markets, ongoing turbulence on the financial markets and public debt in the euro zone constitute risks that are difficult to calculate – particularly in terms of planning, implementing and financing international projects. This is a vital task for banks, as one of their main skills lies in the assessment and assumption of risks.

Managing cross-border risks is one of the strengths of KfW IPEX-Bank. Similar to the way in which a manufacturing industry operates, our risk assessment is based on our proven and continuously optimised methods of analysis and our expertise built up over many years regarding the products and markets in which we are active. Our risk management not only covers diverse country risks, but also other external factors such as political change or potential changes to legal frameworks.

In this way, we make a significant contribution to the long-term success of the projects we finance; it would not be possible to realise many ambitious and pioneering projects if companies were left on their own to assess an importer's creditworthiness or, in view of cross-border transfer risks, to deal with payment processing.

as much progress. This underlines our sense of responsibility and commitment to contributing to improving ecological living conditions as part of our business model.

Leading the way in wind energy finance

In the second half of the year, one of the key projects in the area of German offshore wind energy commenced with the participation of KfW IPEX-Bank in the financing of the Global Tech I wind farm. The consortium – consisting of commercial banks, the European Investment Bank and KfW – is providing over EUR 1 billion in loan capital. The Global Tech I offshore wind farm is to be constructed around 180 kilometres north-west of Bremerhaven and 138 kilometres north of Emden in the German part of the North Sea. Eighty AREVA wind turbines, each with a capacity of five megawatts, will generate a total output of up to 400 megawatts and supply the equivalent of around 445,000 households with renewable energy.

However, KfW IPEX-Bank is also involved with onshore wind energy projects, facilitating the construction and operation of pioneering wind power plants through its financings. The Seigneurie de Beaupré wind farm project in the Canadian province of Quebec consists of 126 wind turbines and will have a total capacity of 271.8 megawatts. The mid-sized company Enercon, one of Germany's leading wind turbine manufacturers, based in Aurich in Lower Saxony, is responsible for its delivery, construction, operation and maintenance. The international consortium of eight banks, in which KfW IPEX-Bank is assuming a leading role, is providing a total financing volume of the equivalent of over EUR 500 million. Once the facility is complete, the green electricity produced is expected to be enough to supply around 150,000 households typical of the local region.

The project and export finance of KfW IPEX-Bank helps to ensure that the world's leading technologies are also used beyond Europe, therefore helping to support global climate protection.

TRANSFER OF KNOWLEDGE IN PROMOTING FOREIGN TRADE

With its in-depth knowledge of export financing and many years' experience with export finance guarantees, KfW IPEX-Bank has established itself as a competent and sought-after partner and adviser for ministries and parliamentary committees. Our expertise as an experienced specialist financier is highly valued by the Interministerial Committee on Export Credit Guarantees and Export Guarantees – the committee of the Federal Republic of Germany that decides on cover policy and the provision of export finance guarantees. This expert advisory service is rendered on a voluntary basis and at the invitation of the Federal Government. We are also represented on the so-called "Hermes Panel of Experts" on technical issues relating to Hermes instruments, and advise the Federal Government in international forums for export finance and insurance – for example, in working groups of the European Council and the OECD. Even when the bank volunteers itself as a communication forum for companies, associations and ministries, the notion of long-term sustainability remains the main focus, namely securing and expanding the position of the German economy in global competition, as well as environmental and climate protection.

For example, we were able to contribute our experience in the area of offshore wind energy when developing the KfW programme "Offshore Wind Energy" designed together with the Federal Ministries for the Environment, Economics and Finance. As a leading project and export financier, we have already been focusing for a number of years on the expansion of renewable energies.

KfW IPEX-Bank assesses every project to be financed in terms of its environmental and social aspects.

Compliance with high environmental and social standards is required

In addition to generating positive effects for the environment and climate, corresponding effects on society play an important role in the projects and exports supported by KfW IPEX-Bank. In order to guarantee this, each project is assessed with regard to its environmental and social impact in the target country. We have also been a member of the Equator Principles Financial Institutions (EPFI) since 2008. There are now 75 so-called Equator Banks which maintain an ongoing dialogue over the further development of the standards that they represent. We also actively participate in drawing up these standards as part of our business model geared towards long-term sustainability.


Christiane Laibach

"Our specialist expertise built up over many years and our proven and continuously optimised methods for analysing and evaluating a wide range of risks form the basis of our effective project and export finance."

INTERNATIONAL AWARDS FOR STRONG PROJECTS

Our project financings are regularly awarded as "Deal of the Year" by leading specialist publications, which serves as impressive proof of the performance of KfW IPEX-Bank in the structuring and financing of complex project and export finance. In 2011 alone, juries from the international publications Jane's Transport Finance, Euromoney Project Finance and PFI Project Finance International issued 14 awards in total for finance projects in which we are involved. These include, for example, the consortium financing of a credit facility of over USD 1 billion for Rolls-Royce & Partners Finance secured through aircraft engines ("Aircraft Engine Finance Deal of the Year") and the ECA-covered financing of two Airbus aircraft to be deployed by China Southern Airlines ("Aircraft Leasing Deal of the Year").

Another project, which was awarded the title of "Infrastructure Deal of the Year", is the construction of the new Wiggins Island terminal on the east coast of Australia, the loading terminal with a capacity of 80 million tonnes per annum will eliminate bottlenecks in the coal transport logistics chain. Our commitment is used to finance orders with German and European companies. Examples of other highly-prized accolades won by KfW IPEX-Bank include those for the Global Tech I and Meerwind wind farm financing, the construction of the new IPP Qurayyah power plant in the Kingdom of Saudi Arabia, and the consortium financing of ten container ships for Hapag Lloyd.

PFI AWARDS 2011

Jane's TRANSPORT FINANCE 2011 Gala Awards WINNER

2011 TRADE FINANCE Deal of the Year

KFW IPEX-BANK SUPPORTS THE ENERGY TURNAROUND

The transition from energy generation using fossil fuels to renewable energies represents the most important step towards improving environmental and climate protection – worldwide. The energy turnaround can therefore make a decisive contribution to preserving our living environment in the long term.

Back in 2003, KfW IPEX-Bank set up an in-house renewable energies team, which possesses valuable expertise in implementing climate and environmental protection projects and commercially viable project financings. For example, the bank financed half of all wind turbines in Taiwan with a total capacity of over 330 MW, as well as financing one of the world's largest photovoltaic power plants in Brandenburg and what is now its ninth solar thermal project in the form of Shams One in Abu Dhabi.

Even though much has been achieved by tripling the share of electricity demand met through renewable energies since 2000 to its current level of 17 %, there is still immense work to be done in the future. Experts believe that the decision of the Federal Government to phase out nuclear power by 2022 is technically possible without jeopardising the security of supply. In practice, this requires annual investment of approximately EUR 25 billion in order to expand renewable energies, together with an increase in energy efficiency, the construction of additional gas power plants and the expansion of the power grid. This is more than banks are able to provide, since, despite extensive initiatives such as the Offshore Wind Energy loan programme designed by the German government and KfW with the support of the expertise of KfW IPEX-Bank, further financial initiatives are required in order to be able to provide the huge investment volumes for the planned offshore wind turbines in the North Sea and Baltic Sea alone. It is therefore necessary and sensible to involve further investor groups in this financing, such as insurance companies and pension funds. Based on our expertise in risk assessment and the structuring of loan capital investments, we can serve as an anchor investor here and use our involvement and expertise as a mark of quality in order to involve further investors in this finance.

Germany's pioneering role in the energy turnaround presents a huge opportunity for the export economy, as its innovative edge in developing environmentally-friendly energy systems is not only setting benchmarks around the world, but is also strengthening the competitive position of German companies. Germany already holds a leading position in terms of patent applications for clean energy generation – it is imperative that this is retained and built upon. With its financings in the area of environment and climate protection, KfW IPEX-Bank is promoting the development of new technologies and making a vital contribution to utilising production capacity.

INFRASTRUCTURE

Financings that are well thought-out to the last detail pave the way

ECONOMIC AND PUBLIC INFRASTRUCTURE SECURE THE FUTURE OF SOCIETIES ON THE MOVE

Infrastructure transports goods and connects people. This is the case for Düsseldorf-based Rheinbahn AG, which is modernising its vehicle fleet with the purchase of around 130 low-floor trams that can be used overground or underground, thus improving the transport services it can offer. KfW IPEX-Bank is structuring a loan totalling EUR 23 million in order to finance part of the new underground fleet, which is to be refinanced via the KfW promotional programme "Municipal Investment". The financing of investments in means of transport as well as projects and measures aimed at maintaining and expanding economic and public infrastructure are among the key focus areas of KfW IPEX-Bank.

Maintaining and expanding infrastructure

With accelerated convergence of global markets, growing professional and private mobility and advancing global networking, infrastructure is becoming the critical factor for the further development of the economy and society. One of the core tasks of KfW IPEX-Bank is the financing of investments to maintain and expand infrastructure.

This involves both economic infrastructure – road, rail, energy and data networks – and public infrastructure in terms of the construction of hospitals, schools and administrative buildings as well as in the areas of water management and waste disposal.

With its financings, KfW IPEX-Bank makes an important contribution not only to the expansion of vital infrastructure, but also to the further development of our globalised economy and society.

In addition to the new trams for Düsseldorf-based Rheinbahn, another example of the financing of transport infrastructure is the 2.5 kilometre-long motorway bridge over the River Drava in Croatia. Our financing has allowed the EU candidate country to connect to one of the main arterial routes in Europe. At the same time, the construction of the bridge has closed another gap in the pan-European transport corridor between Kiev and Venice.

The redevelopment and operation of public buildings in Braunschweig is attributable to our commitment in the area of public infrastructure: as part of a public-private partnership model (PPP model), we are providing a total credit volume of EUR 67.2 million over the construction period of around three years, which the construction company Hochtief will use to redevelop nine schools, three kindergartens and two sports halls and to construct an additional new building.

Leaders in ship and aircraft financing

As one of the largest ship financiers in the world, KfW IPEX-Bank contributes to the modernisation of maritime infrastructure. At the same time, our financings promote the development and production of innovative drive technologies to reduce greenhouse gases. This benefits both the large German and European shipyards and shipping companies, as well as their smaller suppliers. We

Christian K. Murach

"With our expertise in the structuring of complex project and export financings, we develop tailored solutions to support our customers throughout the entire duration of the project. Our participation in bank and investor consortiums is often regarded as a quality seal for the financing."

also support the aviation industry as a reliable partner. An example of such a partnership is our long-standing cooperation with the European aircraft manufacturer Airbus, which operates production sites in cities including Hamburg and Toulouse. Our customers include more than 100 scheduled passenger, freight, and charter airlines, as well as aircraft manufacturers and leasing companies, which we support by means of our many years' experience in providing demanding aircraft financings and in hedging industry-specific risks.

Promoting the supply security of raw materials

A reliable supply of raw materials is required to maintain our economic strength and industrial centres.

The performance of the German economy depends to a great extent on such imports. Many companies now see the supply of raw materials essential for production in adequate amounts and at competitive conditions to be a central strategic risk. The lack of security of supply is threatening to become a locational disadvantage, which could bring with it irreversible production relocations and emigration.

KfW IPEX-Bank is helping to increase the security of supply of raw materials to the Federal Republic of Germany with its financings. It is particularly in this cyclical business that we are able to benefit from our many years' experience and in-depth understanding of the international markets and market trends, such as in our involvement in one of the most important energy supply projects in Europe, the Nord Stream Pipeline in the Baltic Sea. This links western Europe directly with the Russian gas fields, thus securing the supply of gas to companies and private households in the long term.

The official inauguration of the first 1,224 kilometre-long stretch of pipeline by a number of heads of state and government in November 2011 marked not only the completion of an ambitious construction project, but also a milestone in project financing. KfW IPEX-Bank provided a EUR 3.9 billion share of the loan capital, making an important contribution with its risk analysis, guidance and structuring and in its role as the mandated lead arranger and hedging bank.

STRUCTURING EXPERTISE AS A MARK OF THE QUALITY OF FINANCINGS

In order to assert themselves in global competition, companies rely on effectively structured project and export finance. KfW IPEX-Bank specialises here in the development of solutions tailored to a specific company and in supporting projects from the planning stage up to completion and beyond.

Examples of this are the financing of state-of-the-art, energy-efficient power plants, ships with low-emission drive systems, pioneering wind turbines and high-tech equipment for cement and steel projects. So-called buyer's credits are often utilised for these types of export transaction, which are secured by means of export credit guarantees from the Federal Government in the form of so-called Hermes cover.

The way in which KfW IPEX-Bank utilises its expertise along the entire process chain and its willingness to set new standards and achieve optimum performance are evocative of the high quality standards of traditional manufacturers. This is in line with our ongoing business approach – to remain directly involved in the long term and, as such, to document the viability of the project on behalf of other project participants. This is a key requirement in securing the trust and lasting commitment of other investors.

BUSINESS DEVELOPMENT

RECOGNITION AS “BEST TALL BUILDING IN THE WORLD”

The West Arcade, the 14-storey office building of KfW IPEX-Bank at the Frankfurt headquarters of KfW Bankengruppe, is one of the most energy-efficient office buildings in the world due to its low energy consumption.

EXPERTISE AND EXPERIENCE SECURE MARKET POSITION

Expansion of presence in strategic markets

As a member of KfW Bankengruppe and with responsibility for the Export and Project Finance business area, KfW IPEX-Bank has been a reliable partner to the German and European economy for almost 60 years. Our mission to support the competitiveness and internationalisation of German and European companies – from the larger SMEs to large companies – through the provision of effective finance traces back to the statutory promotional mandate of KfW.

We see ourselves as the motor of the export economy and are pursuing our goal of further expanding our presence in strategic markets. The commitment to sustainability and social responsibility combined with the values of a promotional institution form the basis for our confident presence as a market bank.

Our activities focus on medium-term and long-term financings to support the export economy, lending for environmental and climate protection projects and the financing of means of transport and infrastructure projects, as well as projects designed to secure the supply of raw materials for German industry. Thanks to our in-depth sector expertise and structuring competence, we help our customers to position themselves on the market and to establish themselves in international competition.

Stable demand despite slowdown in growth

The global economy has weakened over the course of 2011, following strong development in 2010. In relative terms, the emerging economies continued to drive what is still positive growth, but with weakening momentum over the course of the year. Particularly in the second half of the year, the fragile state of the financial markets, a weak US economy, and continuing structural and debt problems in the euro zone had a negative impact on the German economy which, overall, was still quite stable. This grew by 3 % over the whole of 2011, and thus very strongly for the second year in succession – in fact over twice as fast as the long-term average since reunification.

Overall, global demand for plants equipment and means of transport from Germany and Europe remained stable in 2011. However, in an increasing number of specific cases the supply of financing available to meet the funding requirement was limited. This was because the supply of financing available from European banks continued to be subject to restrictions arising out of the balance sheet clean-ups and adjustments with regard to future Basel III regulations which followed in the wake of the financial and sovereign debt crisis.

Investment confidence leads to high demand for credit

In 2011, KfW IPEX-Bank was able to fully utilise the strengths that lie in its business model geared towards the key industries of the domestic economy. Against the backdrop of the market environment described, the bank was a reliable partner of the export economy and a financing partner for investments in infrastructure and means of transport, environmental and climate protection projects and projects to supply raw materials to Germany.

The Export and Project Finance business area which we are responsible for generated a commitment volume totalling EUR 13.4 billion in 2011, EUR 2.0 billion of which related to loans for refinancing banks under CIRR ship financing. At EUR 11.4 billion, new commitments from the original lending business were up EUR 3.1 billion year-on-year. This positive development in commitments is primarily attributable to the high investment confidence of companies and the relative restraint of banks and capital market participants in individual areas.

Power, Renewables and Water as a growth driver

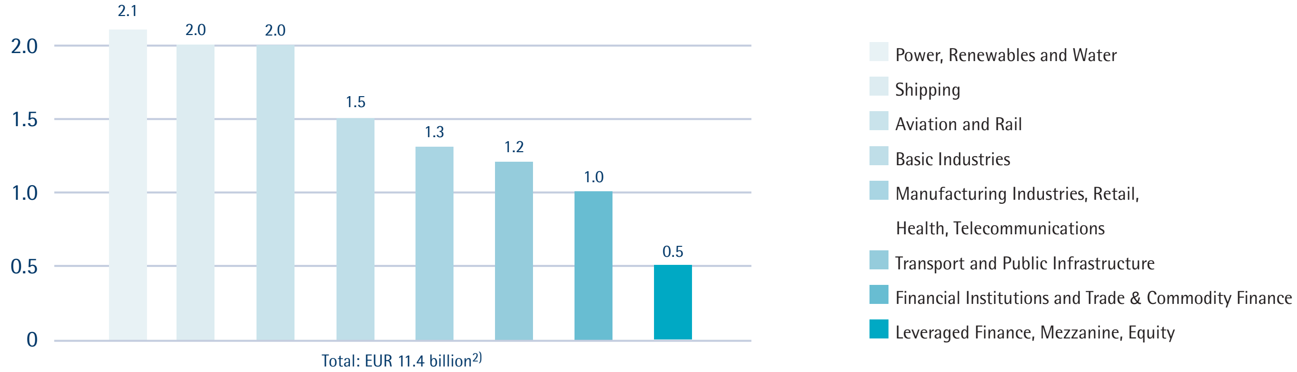
KfW IPEX-Bank possesses proven industry and market expertise in the key economic sectors. These include Basic Industries, Manufacturing Industries, Retail, Health and Telecommunications, but also the Power, Renewables and Water sector. In the area of transport and infrastructure, our expertise is focused on the Shipping, Rail and Aviation sectors, as well as Transport and Social Infrastructure. We are one of the world's leading providers of finance, especially for ships, rail vehicles and aircraft, and for basic industries.

All of our sectors made a positive contribution to our results in 2011. One of the most important growth drivers remains the Power, Renewables and Water business sector, with new commitments of EUR 2.1 billion. Commitments in the Shipping sector and Aviation and Rail also contributed to the excellent result, with each sector generating almost EUR 2.0 billion.

Competitive edge thanks to global network

All over the world, goods and services of German origin signify quality and reliability. It is our mission to translate this potential into growth by means of financing and to support exporters along their path in both industrialised and emerging countries. Thanks to our extensive knowledge of regional markets and our many years' experience in the structuring of complex export and investment projects, we also make a conscious effort to operate in markets where it is difficult to access finance. We also provide additional support to internationally-oriented companies with investment and acquisition financings in Germany. In order to support our international activities, we maintain offices in Abu Dhabi, Bangkok, Istanbul, Johannesburg, Moscow, Mumbai, New York, São Paulo and Singapore and have a branch in London. Due to the growing impor-

New commitments by business sector (figures in EUR billion)[1)]



[1)] Without bank refinancing from CIRR ship financing
[2)] Differences in total due to rounding

tance of the Asian markets, a new office was opened in Singapore in 2011.

In 2011, Germany accounted for 28 % (EUR 3.2 billion) of our new loan commitments, the rest of Europe for 35 % (EUR 4.1 billion) and countries outside Europe for 37 % (EUR 4.2 billion). The share of new business in the emerging markets, which has now increased to 28 %, further emphasises just how important these are to the export economy. These markets appear crisis-proof and are proving to be a driver of growth in the real economy. German companies are set to expand their business operations outside Europe and generate further new business – we will support them by means of our long-term approach.

Operational success and strong contribution to the overall group

The Export and Project Finance business area, for which KfW IPEX-Bank is responsible, contributed EUR 623 million to the consolidated earnings of KfW in 2011, which is far above average when compared to previous years. As such, this business area continues to represent an important source of revenue for KfW Bankengruppe and makes an active contribution to securing the long-term promotional capacity of KfW. The legally independent and independently reporting entity KfW IPEX-Bank GmbH, in which all export and project finance market transactions are combined, also reported a very good financial result with operating income before taxes of EUR 224 million.

Broad diversification of the loan portfolio

The loan portfolio of KfW IPEX-Bank is well diversified as regards both industry and region, and covers the most important sectors of the German economy. The bank has benefited from two factors: first, from careful management of its loan portfolio based upon industry know-how, and second, from the continuation of the economic recovery, which is reflected in the substantial reduction of the expense for risk provisioning.

FAMILY-ORIENTED HR ACTIVITIES

KfW IPEX-Bank has worked together with KfW for many years to orient its human resources policies towards achieving a work-life balance. As well as an extensive range of day nursery and kindergarten places, we also offer our employees a variety of part-time working models and make it possible to undertake managerial responsibilities while working part-time, including via job-sharing.

In order to promote a work-life balance, we carried out extensive workshops with managers and women from all sectors in 2011. The findings and suggestions gathered in these workshops will be implemented through specific measures over the coming years.

We are also striving, as part of our active human resources policies, to further expand the proportion of women in management positions over the coming years. This objective is based on the experience and conviction that mixed teams perform significantly more effectively and efficiently at all managerial levels. In this process, job vacancies will only be filled by candidates with the appropriate skills and qualifications, irrespective of gender, as has been the case up to now. We are convinced that the established goals can be achieved through fair competition and by ensuring appropriate equal opportunities for development for both women and men.

Personnel

At the end of the year, 531 people were employed in total by KfW IPEX-Bank. We will further expand our staff capacity in the coming year in order to implement the agreed business strategy. As the size

Zertifikat seit 2004
audit berufundfamilie®

KFW IPEX-BANK OPERATING AT THE HIGHEST LEVEL IN TERMS OF IN-HOUSE ENVIRONMENTAL PROTECTION

The West Arcade, the 14-storey head office of KfW IPEX-Bank at the Frankfurt headquarters of KfW Bankengruppe, is one of the most energy-efficient office buildings in the world due to its low energy consumption. In 2011, the Council on Tall Buildings and Urban Habitat based at the Illinois Institute of Technology in Chicago awarded it the title of "Best Tall Building Worldwide". In addition to the design and impact of the building on the city and its inhabitants, the technical innovations and its energy efficiency were also evaluated. With this building we are also fulfilling our responsibility towards the environment and society through in-house environmental protection.

The primary energy consumption level of 98 kilowatt hours/m² per year of the West Arcade falls well below previous benchmark standards. The dual-skin, dynamically controlled "compression-ring façade" of the building provides natural ventilation regardless of the weather conditions, and a high level of heat insulation. Geothermal heat exchangers and the utilisation of heat generated by the data processing centre are further examples of the range of measures taken, whose interaction results in the extraordinarily low energy consumption of the building.

We also offset unavoidable CO_2 emissions, incurred for example through business trips or the production of printed publications, through the retirement of emission certificates. By making this voluntary commitment, we are one of the first banks in Germany to become fully carbon-neutral. Four newly installed charging stations for electric cars in the underground car park and countless bicycle stands at the front of the building and in the basement underline our commitment to supporting the measures required for climate protection.

of the workforce will have exceeded 500 employees on a permanent basis, 2012 will see the introduction of a co-determined Board of Supervisory Directors in our limited liability company in accordance with the German One-Third Participation Act (Drittelbeteiligungsgesetz).

Succession management

Succession management at KfW IPEX-Bank, which has been developed in collaboration with KfW, aims to systematically develop all managerial staff on the basis of assessing the current position and identifying potential staffing shortages in good time. It primarily serves to ensure targeted human resources development geared towards meeting demand, and also promotes equal opportunities for all those involved. Succession management ensures that important information is obtained regarding staff density and succession structures, demographics and equality aspects. Managers also benefit from succession management. Their potential is identified at an early stage, thus making it possible to prepare a career plan oriented towards the future as well as an individual further development plan for future responsibilities.

Expansion of the graduate trainee programme

Ensuring that young employees gain the necessary qualifications is very important to us. Therefore, at the end of 2011 we once again substantially increased the number of trainee positions. In that way, we hope to offer graduates of business-related studies the possibility of targeted on- and off-the-job training, in which they can become familiar with the various tasks, projects, and loan processes of the bank.

Close, constructive cooperation

Human resources work can only be successful when management works in close, constructive cooperation with the employees at all levels and in all areas. The works council of KfW IPEX-Bank makes an essential contribution towards this goal. We would therefore like to take this opportunity to thank its members, together with the representatives of our disabled employees. We would also like to offer our thanks to all of our employees, whose great commitment and dedication have contributed to the success of our bank.

Key personnel figures

Employees	531
Part-time employees	12.6 %
Average age	38.8 years
Percentage of female employees	47.1 %
Percentage of male employees	52.9 %
Women in management positions	24.0 %
Percentage of severely disabled employees	1.1 %

IN MEMORIAM

In 2011, we were extremely saddened to learn of the death of our colleague and disabled employee representative, Manfred Kohl.

We will remember our colleague with grateful respect.

MANAGEMENT REPORT

Solutions are worth their weight in gold when they are also easy to implement in heavy industry

STRONG AND RELIABLE PARTNER IN GLOBAL COMPETITION

In the tough conditions of globalisation, industry requires an effective and reliable partner. As a leading project and export financier, KfW IPEX-Bank secures an excellent market position for its customers in international competition thanks to its many years' experience and in-depth sector expertise. An example of this is the coking plant expansion at Hüttenwerke Krupp Mannesmann GmbH (HKM) in Duisburg. Not only will this mean greater independence from the international coke markets for steel production, but it will also help the company obtain important orders and contribute to environmental and climate protection thanks to its innovative technology.

MANAGEMENT REPORT OF KFW IPEX-BANK GMBH

General economic conditions

The global economy was able to continue its recovery in 2011. Global GDP grew by around 4 % in real terms. Although the upturn was weaker than in 2010, growth was still higher than the average for the last 20 years. Nevertheless, economic policy was predominantly aimed at restraint. Fiscal and monetary policy in industrialising and developing countries was directed towards dampening down the economy so as to counter a tendency towards overheating that was particularly apparent through increasing rates of inflation. The need for consolidation also compelled the industrialised countries to adopt constraint in their national budgets.

Whilst the start of the year was still characterised by strong upward rates of growth, the global economy cooled noticeably as the year went on. A number of factors contributed to this. Firstly, in March, the severe earthquake in Japan left its mark. In the summer, the global economy became further depressed as the debt crisis in the euro area deepened.

Even more so than in the previous year, it was the emerging Asian economies that drove global economic growth. Economic output in these markets expanded at a rate that was barely slower than in the previous year. China's strength remains a constant factor: its GDP growth of over 9 % was as vigorous as usual. In contrast, the below average growth performance in the industrialised countries was disappointing. Although the US economy gathered some momentum again at the end of the year, the trend overall, with a growth rate in real terms for the whole of 2011 of 1.7 %, nevertheless reverted to below its pre-crisis level. In the euro area, Germany continued to demonstrate strength. However, strict consolidation programmes and enormous uncertainty over how the crisis would develop noticeably strained the economies of countries with high sovereign debt and low competitiveness. Overall, the euro zone recorded a GDP growth rate in real terms of around 1.4 %.

Developments in the financial markets were affected again in 2011 by the European sovereign debt crisis. In April 2011, Portugal followed Greece and Ireland to become the next member state in the euro zone to require the assistance offered by the euro rescue package. In addition, the ongoing financial problems in Greece necessitated a further rescue package, and at the same time fuelled the concerns of the markets over the sustainability of public sector debt in other euro countries. Against this background, there was a significant increase from the summer onwards in risk premiums on Spanish and Italian government bonds. This resulted in the European banks, which were heavily involved in government bonds, coming under increasing pressure, and in turn this placed greater demands again on the European Central Bank as it played its role in tackling the crisis.

There were pronounced fluctuations in the USD/EUR exchange rate over the course of 2011. Thanks to a positive economic climate in the euro zone in the first quarter of 2011 and the prospect of key interest rate hikes by the Central Bank, the euro was able at first to increase significantly in value, and at the beginning of May it reached its highest level for the year against the US dollar at 1.49. However, as the sovereign debt crisis deepened, the European currency lost considerable ground in the second half of the year. At the end of 2011, the USD/EUR exchange rate was 1.29, well below its average level for the year of 1.39.

Despite the ongoing sovereign debt crisis, the German economy demonstrated its strength in 2011, particularly in the first half of the year. Over the whole of 2011 it grew by 3.0 %, thus very strongly for the second year in succession – in fact more than twice as fast as the long-term average since reunification. The historic downturn in 2009, when GDP shrank by a little over 5 % as a result of the crisis, has meanwhile been more than reversed. The economic output level in both absolute terms and per capita was once again higher in 2011 than before the crisis in 2008. The post-2009 German upturn is therefore not only very impressive at European level, but also in comparison with other major industrialised economies such as the USA and Japan, where output, at least in per capita terms, has not yet been able to match its pre-crisis level. The upturn was possible because Germany entered the crisis without suffering from major upheavals such as asset price bubbles or over-indebted households, and its exporters only had to contend with what was essentially a very sharp but comparatively brief collapse in global demand. At the same time, a new domestic economic dynamic has developed, so that the German economy has become somewhat more independent of shifts in the global economy. In 2011, domestic demand contributed almost three quarters of overall growth. In particular, private consumption recovered significantly and grew in 2011 by 1.5 %: this was the biggest rise in 11 years. In doing so, it benefited from a noticeable increase in disposable income and an extremely favourable labour market which enjoyed two glowing superlatives in 2011: the working population exceeded the 41 million mark for the first time and in so doing achieved a new all-time German record, and at the same time the rate of unemployment sank to a low for Germany as a whole. As in 2010, the good domestic sales outlook and the recovery in exports had a positive impact on companies' investment confidence. Company investment grew by 7.2 % in 2011, having also achieved growth at a similar level in the previous year. As a result of the strong upturn, public sector finances showed an exceptionally positive trend and Germany's government deficit fell by 3.3 percentage points in comparison with the previous year to 1.0 % of GDP. This means that Germany is one of the very few countries that by 2011 could once again have a deficit below the Maastricht benchmark level.

Business 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.

In 2011, the global economy continued to achieve positive growth, but this significantly weakened over the course of the year. In relative terms, the emerging economies continued to be the growth drivers. Particularly in the second half of the year, the fragile state of the financial markets, a weak US economy, and ongoing structural and debt problems in the euro zone had a negative impact on the German economy which, overall, was still quite stable. The supply of financing available from European banks continued to be subject to restrictions arising out of the balance sheet clean-ups and future Basel III regulations which followed in the wake of the financial and sovereign debt crisis. Overall, global demand for plant, equipment and means of transport from Germany and Europe remained stable in 2011. However, in an increasing number of specific cases the supply of financing available to meet the corresponding funding requirement was limited.

In its new business, KfW IPEX-Bank concentrated on borrowers with good ratings and on providing finance for projects backed by good collateral, as well as on supporting long-standing customers. Against the background of this market environment, it was possible to increase the volume of new commitments in the E&P business area in 2011 by EUR 4.1 billion over the previous year, amounting in total to EUR 13.4 billion. Of this sum, EUR 7.1 billion constitutes market business of KfW IPEX-Bank (market business), and EUR 4.4 billion is associated with the promotional business (E&P promotional business) acquired for KfW under a dispositive trust (Ermächtigungstreuhand). In addition, new commitments totalling EUR 1.9 billion were provided for refinancing banks under CIRR ship financing.

A key element of the bank's business strategy is its presence on the main international target markets for the German and European export industry. This is in line with the bank's mission to support the export economy in global competition, and to provide finance for investment in infrastructure and transport, for projects in the environmental and climate protection sectors, and for projects that secure the supply of raw materials to Germany. KfW IPEX-Bank has maintained its branch in London. Due to the growing importance of the Asian markets, a new office was opened in Singapore during the reporting year. This brings the number of foreign offices held by the bank worldwide to nine.

In spite of the ongoing turbulence in the financial markets during the reporting year, the liquidity of the bank was assured at all times. Refinancing spreads at KfW IPEX-Bank in 2011 moved in line with the trends seen at commercial banks with similar ratings. In the first half of the year a sideways trend was noticeable. In August and September, concerns over the weak economy and fears of a recession led to financial institutions charging higher credit risk premiums, and thus to correspondingly dearer refinancing costs for banks. In the last quarter of 2011, the worsening EU sovereign debt crisis caused banks' refinancing spreads to widen once again. This trend was also due to numerous countries and banks suffering rating downgrades. Overall, the average refinancing costs for KfW IPEX-Bank for the year were at a higher level than for the previous year, but below the level sustained during the global financial and economic crisis of late 2008/early 2009.

Moody's rating of Aa3 was reconfirmed in 2011. Standard & Poor's rating also remained unchanged at AA.

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

The total assets of KfW IPEX-Bank as at 31 December 2011 amounted to EUR 46.4 billion, an increase of EUR 0.9 billion over the previous year. This was due in particular to an increase of EUR 0.8 billion in assets held in trust. The trust item consisted essentially of the E&P promotional business which KfW IPEX-Bank administers under a dispositive trust for KfW. Overall, the sum of loans and advances to banks and customers was virtually unchanged from the previous year. Short-term financial investments in the form of money and term deposits held with KfW for the purpose of complying with the German Liquidity Regulation (Liquiditätsverordnung, LiqV) were further reduced as a result of the liquidity line provided by KfW.

The volume of business, which in addition to total assets comprised contingent liabilities and irrevocable loan commitments, rose by EUR 0.8 billion. The irrevocable loan commitments and contingent liabilities from guarantees remained at the same level as the previous year.

The bank's regulatory capital totalled EUR 4.5 billion as of 31 December 2011. The total capital ratio maintained in accordance with the German Solvency Regulation (Solvabilitätsverordnung, SolvV) increased from 17.3 % to 19.3 % compared with the previous year. The tier 1 capital ratio rose to 11.3 %.

Operating income before risk provisions and valuations remained stable at the level of the previous year. The main items included in earnings were net interest income of EUR 250 million and net commission income of EUR 154 million, which together signified an increase of EUR 17 million or 4 %. Administrative expense amounted to EUR 137 million, comprising personnel expense of EUR 68 million and other administrative expense including depreciation on property, plant and equipment of EUR 69 million. Other operating income included the expense for the banking levy paid for the first time in 2011, and, above all, earnings from foreign currency valuation.

The total risk provisions and valuation result for the financial year of EUR –34 million was at the low level seen in the previous year. The expense for risk provisions in the lending business was further reduced by EUR 26 million compared to the previous year down to EUR 7 million, chiefly as a result of the reversal of the general risk provision. Valuations from securities and investments principally included write-downs on investments and securities held as fixed assets. The write-down of a Greek government bond to market value was included in this item.
Overall, all recognisable risks were covered by commensurate risk provisions.

In the 2011 financial year, in accordance with Section 340 g of the German Commercial Code (HGB), the bank appropriated a sum to the fund for general banking risks for the first time in USD. The primary objective was not only to strengthen the bank's tier 1 capital, but also to stabilise the solvency ratios with regard to fluctuations in USD exchange rates. As at 31 December 2011, this balance sheet item comprised USD 388 million, which is equivalent to EUR 300 million.

Operating income before taxes totalled EUR 224 million. After taking into account the appropriation of EUR 145 million to the fund for general banking risks under Section 340 g of the German Commercial Code (HGB) and deduction of income taxes totalling EUR 49 million, the bank recorded net income for the past financial year of EUR 30 million.

Development of net assets

Volume of lending for own account

The volume of lending (loans and advances to customers and banks including financial guarantees and irrevocable loan commitments) totalled EUR 29.4 billion as at 31 December 2011, and therefore remains almost unchanged from the previous year.

Loans for own account by business sector

Business sector	31 Dec. 2011	31 Dec. 2010	Change
	EUR in millions	EUR in millions	EUR in millions
Shipping	5,733	5,574	159
Aviation and Rail	4,219	3,982	237
Power, Renewables and Water	3,109	2,899	210
Manufacturing Industries, Retail, Health, Telecommunications[1)]	2,971	3,421	– 450
Basic Industries	2,166	2,155	11
Transport and Social Infrastructure	2,063	1,924	139
Leveraged Finance, Mezzanine, Equity	746	842	– 96
Financial Institutions and Trade & Commodity Finance	522	378	144
	21,529	21,175	354
Other receivables	46	407	– 361
Loans and advances to banks and customers	21,575	21,582	– 7
Financial guarantees[2)]	2,235	2,105	130
Irrevocable loan commitments[2)]	5,540	5,786	– 246
Total	29,350	29,473	– 123

1) Including the business sector "Telecommunications and Media" reported separately in 2010
2) Refer to the Notes for a breakdown of the amounts by business sector

The total volume of lending remained stable due to the positive trend in new commitments. In the 2011 financial year, the bank provided new commitments in the E&P business area with a total volume of EUR 13.4 billion. The market business accounted for EUR 7.1 billion of this, representing an increase of EUR 1.7 billion or 31 %. The decline in other receivables principally reflects the further reduction in short-term investments in the form of money and term deposits held with KfW. The financial guarantees chiefly include performance guarantees amounting to EUR 1.6 billion as well as guaranteed credits amounting to EUR 0.6 billion.

The business sectors of Shipping, together with Aviation and Rail, continue to account for the major share of the total volume of lending.

Development of other major balance sheet assets

The carrying amount of bonds and other fixed-income securities of the bank as at 31 December 2011 amounted to EUR 2.1 billion and thus remained at the same level as the previous year. The sale and disposal of held-to-maturity securities totalling EUR 0.7 billion was fully compensated for through new investments, mainly in KfW bonds. The bank classified the securities predominantly as fixed assets (EUR 2.0 billion). Securities recognised as current assets amounted to EUR 0.1 billion.

Assets held in trust increased by EUR 0.8 billion to EUR 22.6 billion. By far the greatest part of this, amounting to EUR 22.5 billion, is accounted for by the E&P promotional business which the bank administers under a dispositive trust for KfW.

Investments as at 31 December 2011 totalled EUR 122 million.

Development of financial position

Refinancing

As in the previous year, the refinancing of KfW IPEX-Bank was 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 as required by the bank's customers. Refinancing costs, which particularly increased in the second half of 2011, were largely passed on by the bank to its customers in new lending business.

Liabilities to banks totalled EUR 18.4 billion, and therefore remained at the level of the previous year due to the stable lending volume. Medium to long-term promissory note loans remained the most important sources of refinancing. Funds were principally borrowed in euros and US dollars.

Liabilities to customers mainly consisted of short-term deposits from customers.

Structure and development of refinancing

	31 Dec. 2011	31 Dec. 2010	Change 2011
	EUR in millions	EUR in millions	EUR in millions
Liabilities to banks			
Current account (KfW)	2	24	–22
Call money and term money borrowing (KfW)	2,655	4,848	–2,193
Promissory note loans and other long-term borrowing (KfW)	15,629	13,538	2,091
Interest payable (KfW)	126	122	4
KfW total	18,412	18,532	–120
Other	36	36	0
	18,448	18,568	–120
Liabilities to customers			
Other creditors[1)]	374	311	63
Total	18,822	18,879	–57

[1)] *Includes liabilities from term money borrowing (EUR 239 million) and promissory note loans (EUR 87 million) to customers*

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

	31 Dec. 2011	31 Dec. 2010	Change
	EUR in millions	EUR in millions	EUR in millions
Equity	2,589	2,559	30
of which: subscribed capital	*2,100*	*2,100*	*0*
of which: capital reserve	*450*	*450*	*0*
of which: retained earnings	*9*	*9*	*0*
of which: balance sheet profit	*30*	*0*	*30*
Profit participation capital	503	487	16
Subordinated liabilities	1,345	1,302	43
Fund for general banking risks in accordance with Section 340 g of the *HGB*	300	150	150
Total	4,737	4,498	239

Subscribed capital is composed of share capital, and a silent partner contribution for which there is no contractual maturity date.

The capital reserve of EUR 450 million and the retained earnings of EUR 9 million remained unchanged. The balance sheet profit for the 2011 financial year totalled EUR 30 million.

The profit participation capital granted by KfW Beteiligungsholding GmbH was USD 650 million (EUR 503 million). The total portfolio of subordinated loans amounted to USD 1,740 million (EUR 1,345 million). The increase in the carrying amounts of EUR 16 million and EUR 43 million respectively was entirely due to exchange rate movements.

The silent partner contribution, profit participation rights and subordinated loans are designed to ensure they meet the requirements currently in force of Section 10 of the German Banking Act (Gesetz über das Kreditwesen, KWG) regarding own funds of banks.

The fund for general banking risks as at 31 December 2011 amounted to the equivalent of EUR 300 million. With the aim of strengthening the bank's tier 1 capital and stabilising the solvency ratios with regard to fluctuations in exchange rates, the bank's appropriation to the fund was in USD for the first time in the 2011 financial year.

In December 2010, the Basel Committee on Banking Supervision set out more stringent requirements regarding the quantity and quality of banks' equity (Basel III). Basel III will be implemented in the European Union through the Capital Requirements Directive and the Capital Requirements Regulation (CRD IV) which come into force on 1 January 2013; from this point onwards, substantially stricter requirements will be phased in, particularly with regard to tier 1 capital for banking supervisory purposes.

Against this background, KfW IPEX-Bank and KfW as (indirect) shareholder of the bank adopted a range of measures in December 2011 to bring the capital structure of the bank in line with the future regulatory provisions. As part of the capital concept, it is intended that KfW will make an additional payment into KfW IPEX-Bank's capital reserve through KfW IPEX-Beteiligungsholding GmbH. Under Basel III, this payment will qualify as common equity tier 1 capital. In return, it is planned that KfW IPEX-Bank will reduce supplementary capital. The German Federal Financial Services Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht, BaFin) gave its consent to the package of measures on 5 January 2012. The concept will be presented for adoption to KfW's Board of Supervisory Directors at its meeting on 27 March 2012.

Development of other material items of liabilities and equity

Provisions fell by EUR 85 million compared with the previous year to EUR 190 million. This was mainly the result of reducing provisions for the lending business by EUR 81 million to EUR 71 million as of 31 December 2011. Furthermore, provisions for taxes were reduced by EUR 25 million to EUR 10 million. This was countered primarily by an increase of EUR 11 million in provisions for commitments to Group companies, and of EUR 5 million for pensions and similar commitments.

Off-balance sheet financial instruments

The volume of derivative transactions undertaken to hedge interest and exchange rate risks rose significantly in the 2011 financial year by EUR 3.5 billion to EUR 12.6 billion (+39 %); this was due to high demand by customers for fixed interest rates. As contracts with interest rate risks, interest rate swaps with a volume of EUR 12.2 billion represent by far the largest proportion (97 %) of the total volume of off-balance sheet financial instruments. In order to manage market price risks, KfW IPEX-Bank also uses cross-currency swaps (EUR 0.4 billion) and, to a limited extent, FX swaps and forward exchange deals.

Earnings position

	1 Jan. – 31 Dec. 2011	1 Jan. – 31 Dec. 2010	Change	
	EUR in millions	EUR in millions	EUR in millions	%
Net interest income	250	252	– 2	– 1
Net commission income	154	135	19	14
General administrative expenses	– 137	– 127	10	8
Other operating income and expenses	– 9	– 10	1	10
Operating income before risk provisions/valuations	258	250	8	3
Valuations from securities and investments	– 27	0	27	–
Risk provisioning result in lending business	– 7	– 33	– 26	– 79
Risk provisions and valuations, total	–34	–33	1	3
Operating income before taxes	224	217	7	3
Appropriation to the fund for general banking risks in accordance with Section § 340g of the *HGB*	– 145	0	145	–
Expenses from loss absorption	0	– 29	– 29	– 100
Extraordinary income/expenses	0	– 9	9	100
Profit/loss from operating activities before taxes	79	179	–100	–56
Taxes on income	– 49	– 34	15	44
Net income for the year	30	145	–115	–79

In the 2011 financial year, KfW IPEX-Bank achieved very good operating income before taxes of EUR 224 million.

The most significant sources of income for the bank were net interest and net commission income, which overall contributed EUR 404 million to net income. Net interest accounted for EUR 250 million of this amount, and net commission income for EUR 154 million.

The bank generated total interest income of EUR 674 million, of which EUR 627 million (93 %) resulted from credit and money market transactions and EUR 43 million (or 6 %) from the securities portfolio. Current income from shares and investments accounted for EUR 4 million (or 1 %) of the interest income. Interest expenses amounted to EUR 424 million and related mainly to accepted promissory note loans and to money market transactions totalling EUR 246 million. Interest expenses also included interest of EUR 29 million on profit participation capital, EUR 36 million on the silent partner contribution, and EUR 19 million on subordinated liabilities.

Net commission income amounted to EUR 154 million. This reflects in particular income from processing fees in lending activities (EUR 133 million), which also includes remuneration from KfW for the administration of the E&P promotional business. Income from guarantee commissions of EUR 22 million is also taken into account.

The administrative expense of EUR 137 million relates to personnel expense of EUR 68 million (50 %) and non-personnel expense of EUR 69 million (50 %). Non-personnel expense, including write-downs on plant and equipment, mainly includes expenses for services of EUR 34 million, office operating costs of EUR 14 million and occupancy costs of EUR 9 million. The major portion of non-personnel expense amounting to EUR 54 million (78 %) relates to services with KfW.

Administrative expense

	2011	2010	Change
	EUR in millions	EUR in millions	EUR in millions
Wages and salaries	57	53	4
Social security contributions	6	6	0
Expense for pension provision and other employee benefits	5	5	0
Personnel expense	68	64	4
Non-personnel expense	69	63	6
Administrative expense	137	127	10

Risk provisions and valuation

The total risk provisions and valuation result was EUR -34 million. Valuations from securities and investments accounted for EUR -27 million of this and the risk provision result in the lending business for EUR -7 million.

Valuations from securities and investments chiefly arose from write-downs on investments and securities held as fixed assets. The write-down of a Greek government bond to market value is included in this item.

In terms of risk provisions for the lending business, KfW IPEX-Bank 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. In the 2011 financial year, the risk provisions for the lending business were mainly characterised by income arising from the reversal of the general risk provision and provisions in the lending business, and by expenses for impairment on receivables.

Further information on the risk provisions and valuation result can be found in the risk report.

Summary

In the past financial year, KfW IPEX-Bank recorded very healthy operating income before taxes of EUR 224 million, which was similar to the result of the previous year. Due to the continuing stabilisation of the risk position, the risk provisions requirement in the loan portfolio was very moderate. Results for 2011 were therefore significantly higher than had been budgeted for.

After taking into account the appropriation of EUR 145 million to the fund for general banking risks under Section 340 g of the German Commercial Code (HGB) and deduction of income taxes totalling EUR 49 million, the bank recorded net income of EUR 30 million.

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 committed to acting responsibly. When considering finance for planned projects or exports, it aims to support those that will have a positive impact on the environment and climate. The environmental and social effect of a proposed project is reviewed using the Environmental Guideline, which has now been in place for over 11 years and has now been expanded into the Sustainability Guideline. In view of the global nature of its business and the international ecological, social and economic responsibilities resulting from this, KfW IPEX-Bank joined the Equator Principles Financial Institutions (EPFI) in 2008. There are now around 75 so-called Equator banks which maintain an ongoing dialogue over the further development of the ambitious standards that they represent. KfW IPEX-Bank also actively participates in drawing up these standards.

Some of the self-imposed environmental and social guidelines of KfW IPEX-Bank go beyond the requirements stipulated by the Equator banks. Thus, each loan application is assessed on its environmental and social aspects and assigned to one of the three categories A, B or C. Category A covers projects that could have substantial, diverse, and, in some cases, irreversible environmental and social effects, for example projects which significantly impact on the ecosystem such as raw materials projects or the building of dams. Category B comprises projects where the effects on society and the environment are usually more limited and technically manageable: this applies to many industrial projects. Projects with negligible or no negative impact on the environment or society are classified as category C. Projects which are to be implemented within the EU or in another OECD country are exempted from the requirement for an in-depth review. There is a presumption in such cases that, as in Germany, an authorisation and monitoring regime for environmental and social matters is already in place.

Where the risks of a project need to be assessed, KfW IPEX-Bank takes advice from technical specialists from KfW, who carry out an expert technical assessment of the project requiring financing. Further examination of the environmental and social impact is undertaken using the expertise of KfW's Competence Centre for Environment and Climate. In cases where an in-depth review is undertaken, KfW IPEX-Bank will only grant the relevant finance – where necessary with additional requirements – if internationally accepted environmental and social standards are adhered to and, as a special case for project financing, the Equator Principles are complied with.

Of the loans agreed with non-OECD countries in 2011, nine were classified as category A, nine more fell into category B, and 79 met the requirements of category C.

In 2011, loans granted for investment in climate and environmental protection amounted to around EUR 1.7 billion, corresponding to 13 % of the bank's total volume of new commitments. The main focus of such finance agreements was investment in energy production from renewable energy sources. In addition, the bank provided finance for thermal power plants which use modern technology to achieve high levels of efficiency, and for environmentally friendly means of transport such as rail vehicles. This underlines the bank's dedication and commitment to contributing to an improvement in ecological living conditions.

In-house environmental protection

KfW IPEX-Bank also fulfils its social responsibility for the environment and sustainability by ensuring environmental protection in-house. The West Arcade, its 14-storey head office at the Frankfurt headquarters of KfW Bankengruppe, is one of the most energy-efficient office buildings in the world due to its low energy consumption. Its primary energy consumption level of 98 kWh/m² per year falls well below previous benchmark standards. From as early as 2006, KfW has rendered the remaining emissions resulting from the operation of offices and business trips CO2-neutral through the retirement of emission certificates. KfW IPEX-Bank has continued this practice since becoming legally independent in 2008.

As part of its sustainability management, KfW Bankengruppe develops ambitious goals and monitors their implementation. KfW Bankengruppe documents this work centrally – including for KfW IPEX-Bank – in its Sustainability Report.

Human resources policy moving forward

KfW IPEX-Bank requires well-trained and motivated employees who impress 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, a balance between professional and private life, for example through part-time work, and a variety of professional and health-care benefits. Relevant indicators improved slightly throughout 2011. The share of employees working part-time again showed a small increase over the previous year, totalling approximately 13 %. The proportion of female staff remained at around 47 %, whereby the proportion of women in management rose again, from 21 % to 24 %.

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 its risk-bearing capacity must be guaranteed 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.

KfW IPEX-Bank understands risk to mean the threat of unfavourable future developments which could have a sustained negative effect on the net assets, liquidity position and results of operations of the bank. In the 2011 financial year,

- credit risks
- market price risks
- operational risks
- liquidity risks and
- investment risks

were specifically identified as material risk categories of the bank.

Business and risk strategy

The Management Board 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. It also takes into account 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.

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 type for KfW IPEX-Bank in this context is the credit risk (in particular the counterparty risk) followed by market risks (including the credit spread risk) and operational risks. Liquidity risks and strategic investment risks play a much smaller role in the overall risk position of KfW IPEX-Bank.

The primary objective of the risk strategy is to ensure the economic and regulatory risk-bearing capacity.

Organisation of risk functions

The Management Board represents the highest decision-making body with responsibility for issues relating to risk control and monitoring. In this context, it is responsible in particular for defining the risk strategy, risk standards and evaluation methods as well as risk control. The risk functions of KfW IPEX-Bank include Risk Management, Credit Analysis, Restructuring, Risk Control 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 Management Board. 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, in terms of risk aspects, any pending loan decisions which have to be voted on, as well as identifying risks in the portfolio at an early stage and evaluating them as well as identifying measures to reduce risks. In addition, risk management reviews and approves ratings assigned to new and existing project financing transactions. As a separate organisational unit under Risk Management, the "Collateral Management" team is responsible for the provision and valuation of all collateral, monitors the eligibility of collateral when determining risk indicators and in this context continuously monitors the development of the value of the collateral. The "Risk Instruments and Risk Strategy" team is responsible for the maintenance and further development of the tools used (balance sheet capture, rating, pricing) as well as monitoring the risk functions outsourced to KfW. It is also responsible for operative limit management and covers the areas "operational risks" and "business continuity management".

Credit Analysis is in charge of regular analyses and ratings of corporate risk and object financing 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.

KfW IPEX-Bank has outsourced a number of functions and activities in risk management and risk controlling to KfW. This includes the validation and further development of the rating methodology for counterparty risks, the methodology and the controlling for market price and liquidity risks as well as for operational risks, and the maintenance and further development of the limit management system for KfW IPEX-Bank. The portfolio management and risk reporting functions have also been outsourced to KfW. The outsourced functions and activities are governed by service level agreements between KfW IPEX-Bank and KfW. Monitoring of the outsourced functions 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).

Independent of processes, the Internal Auditing division appraises the effectiveness and appropriateness of the risk management system and reports directly to the Management Board. It makes an important contribution to ensuring the effectiveness of the internal control system. The planning and implementation of appraisals is risk oriented.

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

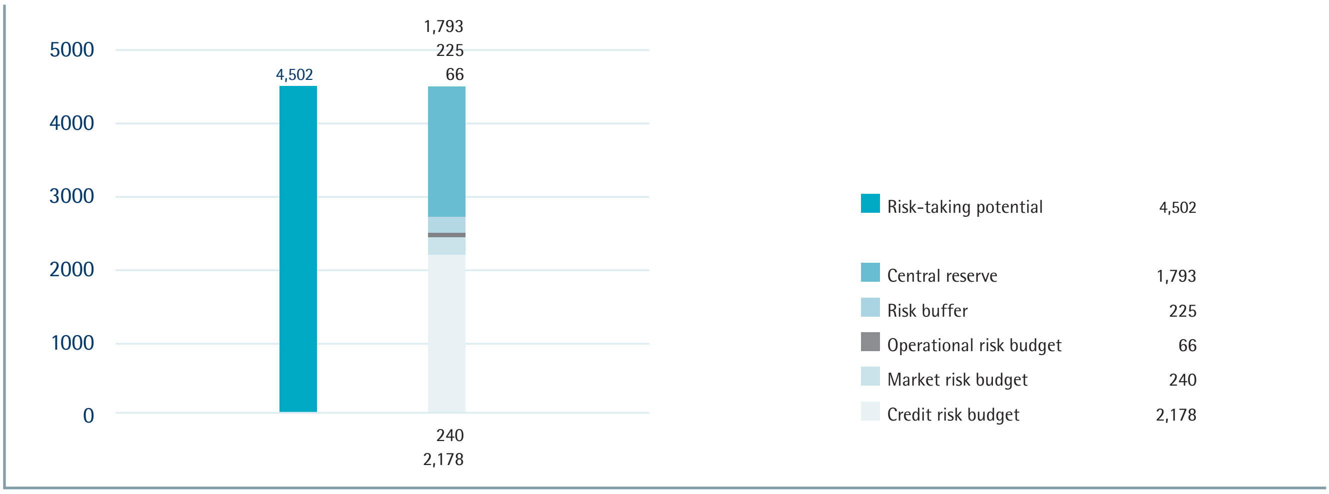
Risk-bearing capacity and regulatory capital adequacy

The revised and expanded risk-bearing capacity concept of KfW IPEX-Bank has been in effect since 31 December 2010. The objective behind this revision was to bring the risk-bearing capacity concept of KfW IPEX-Bank in line with that of KfW Bankengruppe and to implement the amendments enacted to the Minimum Requirements for Risk Management (MaRisk) (third amendment). The main cornerstones of the new concept are as follows:

1. The standardisation of economic and regulatory risk-taking potential, whereby the (economic and regulatory) risk-taking potential is treated as equal to the regulatory capital (regulatorisch anrechenbare Eigenmittel) in accordance with Section 10 (1d) in conjunction with Section 10 (2) of the German Banking Act (Gesetz über das Kreditwesen, KWG).
2. The integration of a going-concern perspective to fulfil an early-warning function for the purpose of determining risk-bearing capacity.

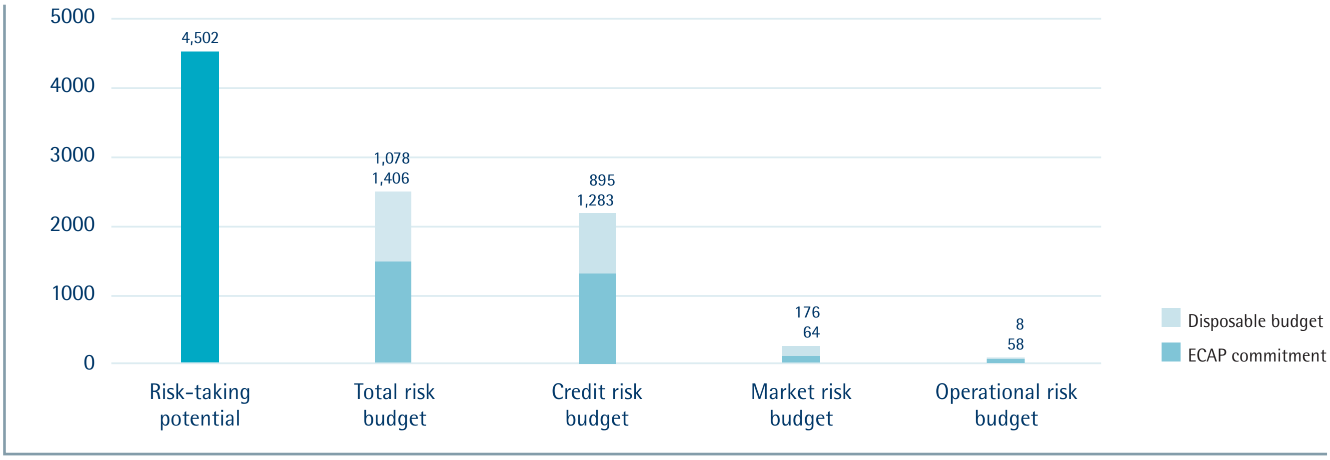
As of 31 December 2011, the risk-bearing capacity of KfW IPEX-Bank was as follows. The risk-taking potential of KfW IPEX-Bank was EUR 4,502 million. The supplementary capital was set aside, together with other items, as a central reserve for internal management purposes. A risk budget for entering into risks at an overall bank level was provided from the core capital, 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 at 31 December 2011 (Figures in EUR millions)



As demonstrated by the following overview, the risk budgets as at 31 December 2011 were not fully utilised. Of the entire risk-taking potential totalling EUR 4,502 million, the sum of EUR 1,406 million was accounted for by risk positions as at 31 December 2011. This means the utilisation of the risk-taking potential at the overall bank level amounts to 31 %.

Utilisation of risk budget as at 31 December 2011 (Figures in EUR millions)



The regulatory capital requirements must be taken into account as a strict additional condition for in-house risk management. The total capital ratio as at 31 December 2011 was 19.3%; thus, the regulatory requirements are met.

Subject to the approval of the KfW Board of Supervisory Directors, the capital structure of KfW IPEX-Bank is to be adjusted. Essentially, these measures aim at strengthening the tier 1 capital while at the same time reducing the tier 2 capital. The implementation of the measures is to be started in 2012.

Credit risks

Lending activities represent the core business of KfW IPEX-Bank. Accordingly, an important focus of overall risk management lies with controlling and monitoring risks in the lending business. According to the group-wide uniform system, the counterparty default risk, which is the most significant category of credit risk, comprises the sub-risk types of classic credit risk (credit risk in the narrower sense), counterparty risk, securities risk, country risk, settlement risk and verity risk.

Credit risk in the narrow sense

KfW IPEX-Bank defines credit risk in a narrower sense as the risk of loss (of value) if debtors do not meet their payment obligations to KfW IPEX-Bank arising from classic credit transactions (loans, guarantees etc.).

Counterparty risk

KfW IPEX-Bank defines counterparty risk as the risk of loss (of value) if counterparties do not meet their payment obligations to KfW IPEX-Bank arising from money market, derivatives or foreign currency transactions. This also covers the replacement risk.

Securities risk

KfW IPEX-Bank defines securities risk as the risk of loss (of value) arising from defaults on securities. This encompasses the risk that issuers do not meet their payment obligations to KfW IPEX-Bank arising from bonds and notes (issuer risk).

Country risk

Country risk encompasses the risk of KfW IPEX-Bank suffering a loss (of value) if sovereign or quasi-sovereign borrowers, counterparties or issuers do not meet their payment obligations to KfW IPEX-Bank arising, for example, under a loan agreement or a bond (sovereign risk), or if solvent private-sector business partners or debtors cannot meet their payment obligations to KfW IPEX-Bank in foreign currency due to a sovereign act in the sense of exchange controls (conversion and transfer risk), or if private-sector business partners or debtors domiciled abroad cannot meet their payment obligations.

Settlement risk

KfW IPEX-Bank defines settlement risk as the risk of loss arising from swap transactions if, after KfW IPEX-Bank has executed its transaction, the counterparty defaults and does not deliver (synonym: fulfilment risk).

Verity risk

KfW IPEX-Bank defines verity risk as the risk of loss (of value) resulting from the risk that purchased receivables cannot be held or liquidated due to the fact that the debtor of the purchased receivables is not obliged to KfW IPEX-Bank to fully deliver.

Measurement of the counterparty risk

Counterparty risk is assessed 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 of the Independent Regulatory Board for Auditors (IRBA). The following rating systems of KfW IPEX-Bank are permitted to use the IRBA under supervisory law:

- Corporates
- Banks
- Countries
- Simple risk weighting for special financing operations (elementary/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. Various simulation-based rating modules, which were licensed from an external provider, are used internally to measure counterparty risk. In this case the, the risk assessment for a financing transaction is mainly determined by the cash flows from the financed object. The rating procedures are calibrated to a one-year default probability. Both the ratings for new customers and the follow-on ratings for existing customers are defined by observing the principle of dual control in the 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.

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 the economic capital (ECAP) commitment. This ensures that both high volumes and unfavourable probabilities of default are taken into account, as are any disadvantageous correlations between the risks.

A risk report is prepared every quarter to inform the Management Board 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 Management Board.

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 concentration risks as well as correlated overall risks. Limitations are based on the dimensions of borrower unit (pursuant to the German Banking Act - *KWG*) and country. These are supplemented by sector limits for selected sectors. Limits are applied to the net exposure and economic capital variables (for borrower units) as well as the maximum of political and economic net exposure (for countries) and net exposure (for sectors). For the purpose of standardisation of country risk limits, the country limit system of

[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.

the KfW Group has been adopted. Limits are generally derived on the basis of a risk tolerance value. Individual limits deviating from standard limits may be defined taking into account additional criteria such as economic size and growth potential.

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 Management Board 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), while they may also 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

For credit risk management and to supplement risk analysis, KfW IPEX-Bank carries out stress tests in order to assess the influence of adverse economic conditions or specific parameters on existing exposures or parts of exposures. In particular, the influence of such conditions and parameters on the bank's risk-bearing capacity in view of the contracted portfolio is taken into account.

In addition, KfW IPEX-Bank carries out a comprehensive stress test across all risk categories, in which the most important and relevant risk types are modelled in a scenario taking into account feedback effects. To meet the new *MaRisk* requirements, diversification effects and risk concentrations within and between the risk categories are taken into account in the framework for stress tests.

Portfolio management

Taking the current market climate into account, portfolio management deploys specific measures in order to spread the risks of the portfolio, thereby optimising the risk structure of the loan portfolio. Portfolio management measures are taken in order to expand the 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.

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 Management Board 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 credit department responsible. 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.

There is also an independent task force called "Restrukturierung KG-Schiffe", which undertakes the restructuring of cash flow-based, non-recourse structured ship financing provided to single-vessel companies organised as a *Kommanditgesellschaft, KG* (the German equivalent of a limited partnership).

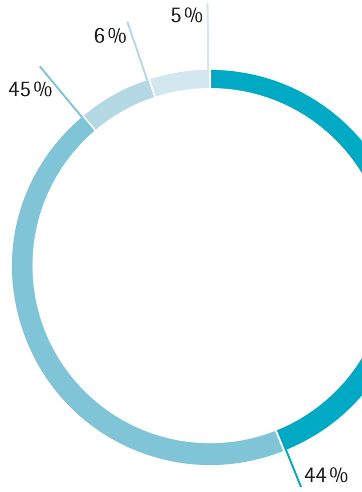
Counterparty risk committee

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

Structure of counterparty risk

Distribution of net exposure by rating class[2)]
Total net exposure: EUR 9.5 billion

	2011	2010
Investment grade (M1-M8)	44 %	46 %
Non-investment grade (M9-M15)	45 %	44 %
Watch list (M16-M18)	6 %	7 %
Non-performing loans (M19-M20)	5 %	3 %

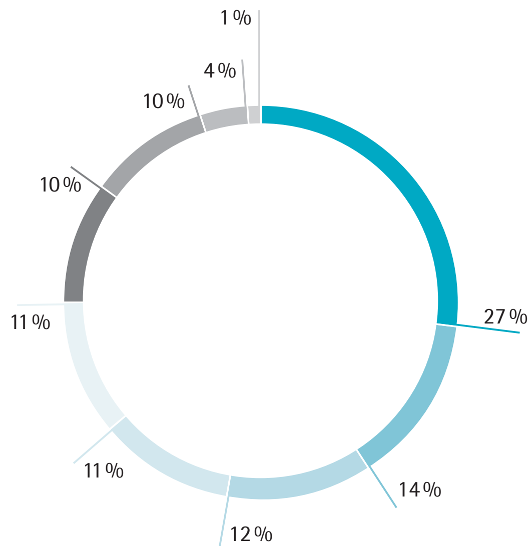


[2)] The net exposure for performing loans can be calculated as maximum function of economic and political net exposure.

The creditworthiness structure in the portfolio has changed slightly compared to the previous year. The average probability of default of the performing portfolio fell moderately in the 2011 financial year from 1.49 % to 1.36 %. The total net exposure is EUR 9.5 billion. Rating classes M1-M8 make up 44 % of this. A further 45 % is in rating classes M9-M15. A further 45 % is in rating classes M9-M15. The proportion of watch list and NPL loans amounts to only 6 % and 5 % of the net exposure, respectively.

Distribution of economic capital by business sector[3)]
Total ECAP: EUR 1,283 million

	2011	2010
Shipping	27 %	28 %
Manufacturing Industries, Retail, Health, Telecommunications	14 %	19 %
Basic Industries	12 %	10 %
Transport and Social Infrastructure	11 %	8 %
Leveraged Finance, Mezzanine, Equity	11 %	12 %
Aviation and Rail	10 %	10 %
Power, Renewables and Water	10 %	8 %
Financial Institutions and Trade & Commodity Finance	4 %	2 %
Liquidity Portfolio	1 %	2 %
Other	0 %	0 %



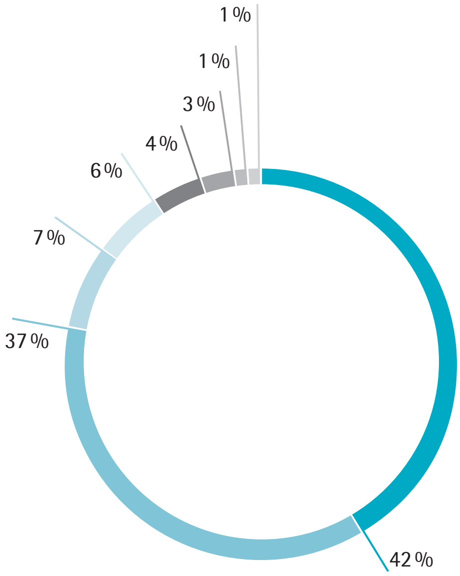
[3)] In 2011 the business sectors were partially restructured. For all of the charts in this report, the figures for 2010 are shown under the new structure.

This overview reveals the diversification of the portfolio throughout individual business sectors. The largest economic capital commitment is found in the sectors of Shipping (27 %), Manufacturing Industries, Retail, Health, Telecommunications (14 %) and Basic Industries (12 %).

Distribution of economic capital by region

Total ECAP: EUR 1,283 million

	2011	2010
Europe (incl. Caucasus)	42 %	41 %
Germany	37 %	39 %
North America	7 %	7 %
Latin America	6 %	4 %
Asia	4 %	4 %
North Africa/Middle East	3 %	3 %
Sub-Saharan Africa	1 %	1 %
Australia and Oceania	1 %	0 %



Taking a regional perspective, business is focused on Europe, including Germany. This accounted for 79 % 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. Specific loan loss provisions or provisions for the lending business increased slightly to EUR 407 million as at 31 December 2011. There were significant changes in individual business sectors.

The portfolio of specific loan loss provisions and lending business provisions for financial guarantees as well as irrevocable loan commitments, structured according to business sector, was as follows as of 31 December 2011:

Specific loan loss provisions

Business Sector	31 Dec. 2011	31 Dec. 2010	Change
	EUR in millions	EUR in millions	EUR in millions
Shipping	221	265	– 44
Manufacturing Industries, Retail, Health, Telecommunications[1]	60	58	2
Aviation and Rail	42	21	21
Leveraged Finance, Mezzanine, Equity	38	4	34
Basic Industries	18	18	0
Power, Renewables and Water	17	7	10
Transport and Social Infrastructure	11	10	1
Total	407	383	24

[1] *Including the business sector "Telekommunications and Media" reported separately in 2010*

Portfolio loan loss provisions as at 31 December 2011 by business sector were as follows:

Portfolio of loan loss provisions

Business sector	31 Dec. 2011	31 Dec. 2010	Change
	EUR in millions	EUR in millions	EUR in millions
Shipping	105	124	– 19
Transport and Social Infrastructure	19	21	– 2
Manufacturing Industries, Retail, Health, Telecommunications[1]	13	20	– 7
Leveraged Finance, Mezzanine, Equity	11	20	– 9
Basic Industries	11	19	– 8
Power, Renewables and Water	10	10	0
Aviation and Rail	9	26	– 17
Financial Institutions and Trade & Commodity Finance	6	6	0
Other	8	2	6
Total	192	248	– 56

[1] *Including the business sector "Telekommunications and Media" reported separately in 2010*

During the financial year write-downs were required on long-term securities totalling EUR 15 million and on investments totalling EUR 20 million.

Market price risks

As a result of the business policy decision not to engage in proprietary trading and not to aim at short-term success through trading, KfW IPEX-Bank is a non-trading book institution. Market price risks are managed so as to ensure that trading transactions do not fall within the definition of Section 1a (1) in conjunction with Section 1a (3) of the German Banking Act (Gesetz über das Kreditwesen - KWG) and are thus assigned to the banking book. The portfolios have a medium to long-term investment horizon. Market price risks are generally managed so as to ensure that from the aspect of overall risk and on the basis of a largely closed position they play as much as possible a subordinate role at KfW IPEX-Bank.

The market risks of relevance to the bank are the interest rate risk, the foreign exchange risk and the credit spread risk. The interest rate risk is defined as the risk of loss (of value) caused by a change in the interest structure adverse for KfW IPEX-Bank. Accordingly the foreign exchange risk is defined as the risk of loss (of value) caused by a change in exchange rates adverse for KfW IPEX-Bank. The credit spread risk is defined as the risk of loss (of value) arising from credit spread changes adverse for KfW IPEX-Bank. At KfW IPEX-Bank the credit spread risk plays a role for the securities on the asset side used for liquidity management purposes. The risk of issuer default is not measured using the credit spread risk; rather, it forms part of the counterparty risk.

Interest rate risk and foreign exchange risk

As part of its market risk strategy, the Management Board of KfW IPEX-Bank has decided that interest rate risks are to be avoided in all cases. Open interest positions are only entered into on a limited scale in the context of fixed-income securities (of the KfW parent) held for liquidity management purposes in the so-called equity investment portfolio and in the area of exposures with fixed-interest periods of less than one year due to the macro refinancing of floating rate EUR and USD loans. The volume of the equity investment portfolio may not exceed the equity shown in the balance-sheet of KfW IPEX-Bank. The interest rate risk is measured on a regular basis and monitored and managed by means of a risk limit.

The general rule for the foreign exchange risk is that foreign currency positions may not be entered into to directly generate income from exchange rate differences. Individual items relating to direct foreign exchange risks arising in the course of business are closed, wherever this is possible and economically viable, through refinancing or hedging transactions. Any residual risks are largely eliminated at the macro level.

Against the background of Basel III and CRD IV, KfW IPEX-Bank has started to replace hybrid capital elements with common equity tier 1 capital (CET I). Beside an allocation to the capital reserve, appropriations to the fund for general banking risks in accordance with Section 340 g of the German Commercial Code (HGB) are also to be made for compensation purposes. In 2011 these appropriations were for the first time made in USD and are intended in future to protect the regulatory equity from fluctuations in the USD exchange rate. On the assets side open foreign currency positions may be built up in the equivalent of the USD tier 1 capital. This is however permitted only to a limited extent and exclusively for the purpose of stabilising key regulatory ratios, but not to generate short-term income from exchange rate differences. As a general rule, such a position is only permitted for the US dollar; its amount is monitored and limited by the risk strategy.

Interest rate risk is measured using a model based on which the value at risk (VaR) is calculated for the EUR and the USD interest positions for a confidence level of 99.96 %. The foreign exchange risk is calculated using a parametric VaR model, also for a confidence level of 99.96 %. Diversification effects between the interest rate and the foreign exchange risks that would reduce the overall risk are not taken into account. Since two separate models are used, this is based on the conservative assumption that there is a completely positive correlation between both risks. The following table shows the interest position as well as the measured interest rate and foreign exchange risks as at 31 December 2011.

Present value Interest position	VaR interest rate risk (99.96 %/3-months holding period)	VaR foreign exchange risk (99.96 %/3-months holding period)
EUR in millions	EUR in millions	EUR in millions
2,382.9	18.3	3.4

The risk values for the interest rate risk show that the small open position adopted by KfW IPEX-Bank makes it practically immune to interest rate fluctuations. Even in the worst-case scenario with a confidence level of 99.96 %, the loss would amount to less than 1 % of the total present value. Also, sensitivity to exchange rate variations is slight.

Credit spread risk in the liquidity portfolio

The liquidity portfolio, which is held to meet liquidity requirements in the meaning of Section 11 of the German Banking Act (KWG) in connection with the German Liquidity Regulation (Liquiditätsverordnung) had a volume of EUR 864 million and included 38 items as at 31 December 2011.

The issuer structure as at the reporting date was as follows:

Issuer	Nominal volume
	EUR in millions
Corporates	7
Financial institutions	410
Pfandbrief bonds	357
Foreign countries	90
Total	864

The liquidity portfolio is a phase-put portfolio. Owing to maturities in the portfolio, the portfolio volume experienced a sharp decline in 2011

(EUR -719 million compared to 2010). What is more, the average duration of the portfolio contracted further. The spread BPV[4] of the portfolio at year end fell to less than EUR 93 thousand.

The funds from matured securities in the liquidity portfolio were reinvested in the equity investment portfolio. The equity investment portfolio contains exclusively fixed income bonds denominated in EUR (issued by the KfW parent) that are eligible for repo transactions and serve to secure liquidity and meet regulatory requirements in accordance with Section 11 of the German Banking Act (KWG) and the German Liquidity Regulation (Liquiditätsverordnung).

The credit spread risk in the liquidity portfolio is measured with a holding period of 10 days and a confidence level of 99.96 %. The credit spread risk as of 31 December 2011 was EUR 4 million (compared with EUR 5 million as of 31 December 2010).

The securities in the liquidity portfolio are hedged against interest rate risks. Interest rate risks that may theoretically arise from insufficiently hedged positions are recorded in the measurement for the bank as a whole, as explained in the previous section. There are no foreign exchange risks for the portfolio, since only EUR positions are held.

Liquidity risks

In terms of liquidity risk, the bank distinguishes between solvency risk and the funding cost risk.

Solvency risk

This is the risk of not settling payment obligations at all, on time and/or not to the required extent.
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. In addition to the refinancing agreement, KfW IPEX-Bank has the liquidity portfolio and the equity investment portfolio, a credit facility with KfW as well as short-term money market investments with KfW in order to ensure that it is at all times sufficiently capable of meeting its payment obligations in accordance with Section 11 of the German Banking Act (Gesetz über das Kreditwesen, KWG) in conjunction with the German Liquidity Regulation (Liquiditätsverordnung).
This means the risk of KfW IPEX-Bank is directly related to the liquidity risk of KfW. Accordingly, the solvency risk of KfW IPEX-Bank is measured and managed by KfW. The liquidity requirement of KfW IPEX-Bank is thus taken into account in the strategic refinancing planning of KfW at Group level. By contrast, KfW IPEX-Bank takes direct responsibility for the operative measurement and management of its own liquidity.

KfW IPEX-Bank measures its solvency risk on the basis of regulatory liquidity risk indicator in accordance with the German Liquidity Regulation (Liquiditätsverordnung). 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. In the framework of liquidity management the Treasury Department of KfW IPEX-Bank decides within a defined frame about the measures to be taken to achieve optimum liquidity positions.

Funding cost risk

In addition, the bank evaluates the funding cost risk, which it defines as the risk that loans are refinanced on less favourable conditions than was assumed at the time they were placed. The funding cost risk also takes into account the danger that funds received from prepaid loans can be reinvested only at less favourable conditions. This funding cost risk also includes the risk arising from liquidity maturity transformation.
The funding cost risk is measured by the liquidity asset value (Liquiditätsvermögenswert, LVW), which shows the potential loss over a period of years resulting from, on the one hand, a deterioration in refinancing conditions on the liabilities side and, on the other, a deterioration in reinvestment conditions on the assets side. The funding cost risk of KfW IPEX-Bank is measured on the basis of the fluctuation in the *LVW* by looking at different scenarios. This scenario analysis focuses on the widening credit spreads and the risk of loan repayment ahead of schedule.

Operational risks

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risks. Reputation risks and strategic risks are not included. Supervisory requirements regarding risk management are derived from the standard approach to operational risks, which KfW IPEX-Bank uses as a basis when calculating the regulatory capital for operational risks, as well as from the Minimum Requirements for Risk Management (MaRisk).
The operational risk strategy forms the framework for dealing with operational risks in KfW IPEX-Bank and is based on the guidelines of KfW (Group strategy). For KfW IPEX-Bank, pure operational risks that are not credit-related are partial risks that can easily be quantified.

Core functions in the process of managing and controlling operational risks within KfW IPEX-Bank are:

- The Management Board of KfW IPEX-Bank as the operational risk decision-making and control body,

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

- The KfW IPEX-Bank coordinator in charge of operational risks and business continuity management as the central body responsible for operational risk issues,
- Inclusion of the Internal Auditing department as independent control mechanism.

The most important instruments in operational risk management include risk assessment, the early-warning system and the operational risk event and measures database.

In the framework of the annual risk assessment operational risks are systematically identified and assessed. The operational risk profile of KfW IPEX-Bank is ascertained on this basis.

There is also a system for continuous recording and measurement of operational risk indicators. 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 captures and processes operational risk events. 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.

Measures derived to prevent, reduce or shift an operational risk identified are captured in a measures database. This is done for documentation purposes and enables the monitoring of the implementation of the measures.

Operational risk is integrated into the risk-bearing capacity concept and in stress testing of all types of risk by KfW IPEX-Bank.
The financial holding group, which, besides KfW IPEX-Bank, consists of Railpool Holding GmbH & Co. KG and Movesta Development Capital Beteiligungsgesellschaft, is mainly dominated by KfW IPEX-Bank. Due to their narrowly defined range of activities, the subsidiary companies are only of limited economic importance, thus additional operational risks at the Group level cannot be identified.

Investment risks

KfW IPEX-Bank defines investment risk as the risk of loss (of value) associated with the medium to long-term provision of equity capital to third parties (e.g. the loss (of value) caused by non-payment of dividends, the obligation to make additional capital contributions or loss on disposal).

Risks from investments whose main focus is on company or business policy objectives are classified as strategic investment risks. To ensure that risk controlling and management is effective, a distinction is made between material and non-material strategic investments. Investments that have a credit-like character or the character of a credit substitute are classified as operative investments.

For the purpose of assessing the risk-bearing capacity, investment risks are currently included in the assessment under the economic capital budget for the counterparty default risk category. Its utilisation is monitored as part of the risk reporting. Investment risks are integrated in the stress testing for the counterparty default risk category. This procedure has been chosen since currently allowance is made for strategic investments on a blanket basis according to the potential for loss using the PD/LGD approach. The individual investment entities are not reviewed at the individual risk level (e.g. counterparty default risk, market price risk, operational risk, etc.). Due to their credit-like character or the character of a credit substitute, operative investments area also measured and managed as counterparty default risks.

The aim is to adopt a more differentiated risk assessment approach for material strategic investments (currently only the commitment to Railpool GmbH satisfies the materiality criterion) where they are substantially significant in terms of business and risk strategy.

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 KfW IPEX-Bank's 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.

FORECAST REPORT

The situation of the global economy is extremely fragile. The industrialised countries are suffering from the effects of the sovereign debt crisis. As part of this, developments in the European monetary union have deepened into a far reaching crisis of confidence which has not only infected the financial system, but is also beginning to impact on the real economy. The development of the global economy in 2012 depends, critically, on whether policies for containing the debt crisis on a sustainable basis are successful.

The emerging economies are expected to continue to register strong growth. Nevertheless, even they are not completely immune to a fall in demand from the industrialised countries. However, as domestic demand and regional trade have become more important for the emerging economies, and since there is comparatively ample room for manoeuvre in economic policy, it is likely that negative consequences for growth will remain restricted. It should be possible to avoid a recession in the industrialised countries, despite financial and sovereign debt crises, and to see moderate growth of around the same level as the previous year. At the same time, it is likely that the US economy will show more of a growth trend in 2012 than the European economies. Overall, the global economy in 2012 should grow at a similar rate to the previous year.

Notwithstanding the expected signs of growth, there will be negative factors and risks. The forecast assumes that a credible approach will be found for overcoming the euro crisis within a reasonable time scale, so that businesses, consumers and the financial markets can once again demonstrate greater confidence for the future. In these conditions, Germany's enduring strengths – competitive businesses with a globally attractive range of high-value capital goods, a robust labour market, comparatively sound government finances – come increasingly to the fore, and the downturn will be reversed over the course of 2012. However, should there be no convincing signs of an end to the crisis, it is likely that the slump will deepen and last longer.

Based on the economic environment, the bank expects the high demand for medium and long-term financing to continue unchanged. It believes that it has good prospects in the financing of power, renewables and water projects, as well as in projects relating to securing Germany's supply of raw materials and for commitments in the Basic Industries and the Trade and Commodity Finance sectors. The bank continues to take on new business in the area of asset financing (ships, rail vehicles, aircraft) at the same level as previously, on a selective basis and backed by good collateral. In regional terms, the focus will primarily be on markets that play a special role for the German export economy. Together with European countries these include, in particular, the emerging economies in Asia and Latin America.

The bank will continue to concentrate on providing financing to support the German and European export economy and on trends in the economic and public infrastructure. In addition, it will provide loans for projects in the environmental and climate protection sectors and for projects designed to secure the supply of raw materials in Germany. Furthermore, it will pay special attention to small- and medium-sized exporters.

In 2012, taking account of the general conditions outlined above, KfW IPEX-Bank expects to record new business volume in export and project finance of EUR 11.4 billion in its original credit business. For 2013, new business volume of a similar or, if market conditions are favourable, slightly higher level is expected. This target is subject to the customary forecasting uncertainty arising from the unpredictability of major influencing factors that determine the bank's business operations.

This uncertainty also applies for the forecast result for 2012, which will depend largely on the extent of the necessary risk provisions.

Corporate governance declaration

KfW IPEX-Bank recognises the principles of the German Public Corporate Governance Code (PCGK). A Declaration of Compliance with the recommendations of the PCGK is included in the Corporate Governance Report of KfW IPEX-Bank.

FINANCIAL STATEMENTS OF KFW IPEX-BANK GMBH 2011
BALANCE SHEET OF KFW IPEX-BANK GMBH
AS AT 31 DECEMBER 2011

Assets

		31 Dec. 2011			31 Dec. 2010		
	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			6			5	
b) Funds with central banks			0			0	
of which: at Deutsche Bundesbank	*0*						
c) Funds at postal giro offices			0	6		0	5
2. Loans and advances to banks							
a) due on demand			51,140			315,599	
b) other loans and advances			319,158	370,298		273,157	588,756
3. Loans and advances to customers				21,205,164			20,993,407
of which: secured by property lines	*0*						
of which: municipal loans	*56,800*						
4. Bonds and other fixed-income securities							
a) Money market instruments							
aa) of public issuers		0			0		
of which: eligible as collateral with the Deutsche Bundesbank	*0*						
ab) of other issuers		0	0		0	0	
of which: eligible as collateral with the Deutsche Bundesbank	*0*						
b) Bonds and notes							
ba) of public issuers		77,196			112,425		
of which: eligible as collateral with the Deutsche Bundesbank	*77,196*						
bb) of other issuers		2,003,942	2,081,138		1,913,940	2,026,365	
of which: eligible as collateral with the Deutsche Bundesbank	*1,715,220*						
c) Own bonds			0	2,081,138		0	2,026,365
Nominal value	0						
5. Shares and other non-fixed-income securities				8,365			9,140
6. Investments				122,136			106,093
of which: in banks	*360*						
of which: in financial service institutions	*0*						
7. Assets held in trust				22,576,450			21,775,058
of which: loans held in trust	*22,535,834*						
8. Intangible assets							
a) Internally generated industrial property rights and similar rights and assets			0			0	
b) Purchased concessions, industrial property rights and similar rights and assets and licenses to such rights and assets			247			331	
c) Goodwill			0			0	
d) Payments on account			0	247		0	331
9. Property, plant and equipment				395			414
10. Other assets				12,948			2,680
11. Prepaid expenses and deferred charges				16,125			18,467
Total assets				46,393,272			45,520,716

Liabilities and equity

		31 Dec. 2011			31 Dec. 2010		
	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			167,600			68,434	
b) with agreed term or period of notice			18,279,901	18,447,501		18,499,463	18,567,897
2. Liabilities to customers							
a) Savings deposits			0			0	
b) other liabilities							
ba) due on demand		8			0		
bb) with agreed term or period of notice		373,559	373,567	373,567	311,195	311,195	311,195
3. Liabilities held in trust				22,576,450			21,775,058
of which: loans held in trust	*22,535,834*						
4. Other liabilities				41,709			71,216
5. Deferred income				27,573			22,159
6. Provisions							
a) Provisions for pensions and similar commitments			68,572			63,717	
b) Tax provisions			10,363			35,492	
c) Other provisions			110,858	189,793		175,926	275,135
7. Subordinated liabilities				1,344,772			1,302,200
8. Profit participation capital				502,357			486,454
of which: due within two years	*0*						
9. Fund for general banking risks				300,000			150,000
10. Equity							
a) Called capital							
Subscribed capital		2,100,000			2,100,000		
less uncalled outstanding contributions		0	2,100,000		0	2,100,000	
b) Capital reserves			449,992			449,992	
c) Retained earnings							
ca) Legal reserve		0			0		
cb) Reserve for shares in an enterprise in which KfW IPEX-Bank holds a controlling or majority stake		0			0		
cc) Statutory reserves		0			0		
cd) Other retained earnings		9,410	9,410		9,410	9,410	
d) Balance sheet profit			30,148	2,589,550		0	2,559,402
Total liabilities and equity				46,393,272			45,520,716
1. Contingent liabilities							
a) From the endorsement of rediscounted bills		0			0		
b) From financial guarantees		2,235,444			2,105,034		
c) Assets pledged as collateral on behalf of third parties		0	2,235,444		0	2,105,034	
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		5,539,751	5,539,751		5,785,656	5,785,656	

INCOME STATEMENT OF KFW IPEX-BANK GMBH FROM 1 JANUARY 2011 TO 31 DECEMBER 2011

Expenses

		1 Jan. – 31 Dec. 2011			1 Jan. – 31 Dec. 2010		
	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands
1. Interest expense				423,583			456,457
2. Commission expense				1,072			924
3. Administrative expense							
a) Personnel expense							
aa) Wages and salaries		56,943			53,452		
ab) Social security contributions, expense for pension provision and other employee benefits		10,853	67,796		10,460	63,912	
of which: for pension provision	5,094						
b) Other administrative expense			69,066	136,862		63,129	127,041
4. Depreciation and impairment on property, plant and equipment and intangible assets				274			288
5. Other operating expense				25,976			25,895
6. Write-downs of and value adjustments on loans and certain securities and increase of loan loss provisions				5,377			32,514
7. Appropriation to the fund for general banking risks				144,844			0
8. Write-downs of and value adjustments on investments, shares in affiliated enterprises and securities treated as fixed assets				28,624			83
9. Expenses under profit and loss agreements				0			29,481
10. Extraordinary expenses				0			8,902
11. Taxes on income				48,671			33,872
12. Net income for the year				30,148			144,694
Total expenses				845,431			860,151
1. Net income for the year				30,148			144,694
2. Loss carried forward				0			(85,450)
3. Other retained earnings				0			(4,092)
4. Replenishment of silent partner contribution				0			(55,152)
Balance sheet profit				30,148			0

Income

		1 Jan. – 31 Dec. 2011			1 Jan. – 31 Dec. 2010		
	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands
1. Interest income from							
a) Lending and money market transactions			627,480			647,867	
b) Fixed-income securities and debt register claims			42,659	670,139		36,397	684,264
2. Current income from							
a) Shares and other non-fixed-income securities			917			919	
b) Investments			2,974			23,253	
c) Shares in affiliated enterprises			0	3,891		0	24,172
3. Commission income				154,887			135,574
4. Other operating income				16,514			16,141
Total income				845,431			860,151

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 in either 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 are recognised at cost, par or at a lower fair 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. Insofar as these securities are packaged together with derivative financial instruments to make a valuation unit for hedging interest rate risks, then the valuation has been performed at amortised cost – to the extent that compensating effects existed in the underlying and hedging transactions.

Fixed asset securities are valued according to the moderate lower of cost or market principle; in the event of permanent reduction in value, securities are written down. Valuation units have been valued at amortised cost.

No securities have been allocated to the trading stock.

Investments are recognised at acquisition cost. They are written down if there is a permanent reduction in value.

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 are depreciated pro rata temporis according to tax regulations. A compound item is set up for low value fixed assets with purchase costs of more than EUR 150 and up to EUR 1,000, which is depreciated on a straight-line basis over five years.
The statutory write-ups are made for all assets in accordance with Section 253 (5) of the German Commercial Code (HGB).

Liabilities are recognised at their repayment value.

Foreign currency conversion is performed in accordance with the provisions of Section 256 a in conjunction with Section 340 h of the German Commercial Code (HGB).

Provisions for pensions and similar commitments are calculated using actuarial principles in accordance with the projected unit credit method. The calculation is made on the basis of “Richttafeln 2005 G” (Mortality and Disability Tables) by Dr Klaus Heubeck, applying the following actuarial assumptions.

	31 Dec. 2011
	in % p.a.
Interest rate for accounting purposes	5.14
Projected unit credit dynamics[1)]	1.00 to 3.00
Index-linking of pensions[2)]	1.00 to 2.50
Employee fluctuation rate[3)]	0 to 4.00
Wage and salary increases[1)]	1.00 to 3.00

[1)] *Varies according to whether staff are covered by a collective agreement*
[2)] *Varies according to applicable pension scheme*
[3)] *The staff turnover rate is taken into account in the calculation in accordance with a graduated age scale*

KfW IPEX-Bank exercises the option under Section 274 (1) of the German Commercial Code (HGB) not to recognise a net deferred tax asset resulting from the offsetting of deferred tax liabilities. In this instance, deferred tax liabilities of EUR 1 million were offset against deferred tax assets. The deferred tax liability is attributable to accounting differences relating to the reporting of investments.

The other provisions are recognised at their expected recourse value. Where the residual term is greater than one year, it has been discounted.

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 are 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 (portfolio loan loss provisions).

Prepaid expenses and deferred charges and income are 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.

In accordance with the provisions of the relevant regulatory authority, KfW IPEX-Bank has reverted in the 2011 financial year to balance sheet recognition of the E&P promotional business administered for KfW under a dispositive trust (assets and liabilities held in trust): in the last financial year this was not recognised on the balance sheet. The previous year‘s figures have been restated to make them more comparable.

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

		Maturity with agreed term or period of notice					
	Due on demand	Up to 3 months	More than 3 months to 1 year	More than 1 year to 5 years	More than 5 years	Pro rata interest	Total
	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	51,140	45,180	192,560	48,936	21,386	11,096	370,298
(as at 31 Dec. 2010)	*315,599*	*80,925*	*92,714*	*69,372*	*21,328*	*8,818*	*588,756*
Loans and advances to customers	0	902,731	2,709,480	10,716,954	6,780,699	95,300	21,205,164
(as at 31 Dec.2010)	*0*	*837,442*	*2,005,930*	*11,395,426*	*6,666,766*	*87,843*	*20,993,407*
Total	51,140	947,911	2,902,040	10,765,890	6,802,085	106,396	21,575,462
(as at 31 Dec. 2010)	*315,599*	*918,367*	*2,098,644*	*11,464,798*	*6,688,094*	*96,661*	*21,582,163*
in %	0	4	13	50	32	1	100

	Loans and advances to		
	Banks	Customers	Total
of which to:	EUR in thousands	EUR in thousands	EUR in thousands
Shareholders	0	0	0
Affiliated enterprises	53,210	73,108	126,318
Enterprises in which KfW IPEX-Bank holds a stake	0	43,114	43,114
Subordinated assets	0	105,786	105,786

Bonds and other fixed-income securities

Listed/marketable securities

	31 Dec. 2011	31 Dec. 2010
	EUR in thousands	EUR in thousands
Listed securities	2,081,138	1,996,404
Unlisted securities	0	29,961
Marketable securities	2,081,138	2,026,365

The “Bonds and other fixed-income securities“ item totalling EUR 2,081 million (previous year: EUR 2,026 million) contains securities of KfW as an affiliated enterprise amounting to EUR 839 million (previous year: EUR 50 million). The portfolio includes securities amounting to EUR 588 million (previous year: EUR 757 million) which fall due during the year following the balance sheet date. In addition, it includes subordinated securities in accordance with Section 4 of the Ordinance Regarding the Accounting System for Banks (RechKredV) of EUR 15 million.

Shares and other non-fixed-income securities

	31 Dec. 2011	31 Dec. 2010
	EUR in thousands	EUR in thousands
Listed securities	8.365	0
Unlisted securities	0	9.140
Marketable securities	8.365	9.140

"Shares and other non-fixed-income securities" includes a profit participation certificate that is both subordinated in accordance with Section 4 of the Ordinance Regarding the Accounting System for Banks (RechKredV) and, since 2011, listed. It is valued strictly at the lower of cost or market.

Fixed assets

	Changes	Residual book value	Residual book value
	2011[1]	31 Dec. 2011	31 Dec. 2010
	EUR in thousands	EUR in thousands	EUR in thousands
Shares and other non-fixed-income securities	–775	8,365	9,140
of which included in valuation units within the meaning of Section 254 HGB	*–775*	*8,365*	*9,140*
Investments	16,043	122,136	106,093
Bonds and other fixed-income securities	133,281	2,016,471	1,883,190
of which included in valuation units within the meaning of Section 254 HGB	*–387,329*	*660,990*	*1,048,319*
Total	148,549	2,146,972	1,998,423

	Purchase/ production costs	Additions	Disposals	Transfers	Allocations	Depreciation/ impairment		Residual book value	Residual book value
						Total	2011	31 Dec. 2011	31 Dec. 2010
	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	421	0	0	0	0	174	84	247	331
Property, plant and equipment[2]	1,406	178	81	0	0	1,109	190	394	414
Sum	1,827	178	81	0	0	1,283	274	641	745
Total								2,147,613	1,999,168

[1] *Including exchange rates changes*
[2] *Of which as at 31 December 2011: - total value of plant and equipment EUR 394 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 have been included under securities treated as fixed assets.

Bonds and other fixed-income securities held under fixed assets have been valued in accordance with the moderate lower of cost or market principle. As a result, with three exceptions where there has been a permanent reduction in value, it has been possible to avoid write-downs of EUR 37 million on such securities, since a recovery is expected before their maturity date.

The book value of the securities recognised using the moderate lower of cost or market principle totals EUR 742 million; the corresponding fair value of these securities (including the underlying swaps) is EUR 705 million.

The book value of the marketable securities not valued at the lower of cost or market totals EUR 2,016 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.	Movesta Development Capital Beteiligungsgesellschaft mbH, Düsseldorf[1)]	50.0	2,429	– 196
2.	Railpool GmbH, Munich	50.0	1,993	845
3.	Railpool Holding GmbH & Co. KG, Munich	50.0	1,195	– 5,038
			USD in thousands	USD in thousands
4.	Canas Leasing Ltd., Dublin, Ireland[1)]	50.0	0	0
5.	Freighter Leasing S.A., Luxembourg[1)]	22.2	13,969	10,123
6.	Sperber Rail Holdings Inc., Wilmington, USA[1)]	100.0	373	– 330
7.	8F Leasing S.A., Luxembourg[2)]	22.2	[2)]	[2)]

[1)] Figures only available as per 31 December 2010
[2)] Company established in 2011, financial statements not available

The marketable securities amounting to EUR 20 million contained in the item “Investments“ are not listed.

Assets held in trust

	31 Dec. 2011	31 Dec. 2010	Change
	EUR in thousands	EUR in thousands	EUR in thousands
Loans and advances to banks			
a) due on demand	0	0	0
a) other loans and advances	1,280,648	1,407,809	– 127,161
Loans and advances to costumers	21,255,186	20,333,594	921,592
Shares	40,616	33,655	6,961
Total	22,576,450	21,775,058	801,392

In accordance with the provisions of the relevant regulatory authority, KfW IPEX-Bank has reverted in the 2011 financial year to balance sheet recognition of the E&P promotional business administered for KfW under a dispositive trust (assets and liabilities held in trust): in the last financial year this was not recognised on the balance sheet. The previous year‘s figures are restated to make them more comparable.

The assets held in trust, recorded on the balance sheet at EUR 22.6 billion (previous year: EUR 21.8 billion), incorporate the E&P promotional business amounting to EUR 22.5 billion (previous year: EUR 21.8 billion). In addition, EUR 31 million (previous year: EUR 21 million) relates to such loan business that is administered on a trust basis by KfW IPEX-Bank for third parties (outside the Group) and is legally owned by KfW IPEX-Bank.

Other assets

The other assets totalling EUR 13 million (previous year: EUR 3 million) chiefly relate to loans and advances to the financial authorities resulting from tax prepayments and tax refund claims amounting to EUR 12 million (previous year: EUR 1 million).

Prepaid expenses and deferred charges

Prepaid expenses and deferred charges include in particular upfront interest payments from swaps amounting to EUR 8 million (previous year: EUR 11 million), and accrued discounts from promissory note loans with KfW amounting to EUR 4 million (previous year: EUR 2 million). Additionally, this item includes accrued Hermes fees of EUR 4 million (previous year: EUR 4 million).

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	167,600	3,534,657	3,632,937	8,642,563	2,343,332	126,412	18,447,501
(as at 31 Dec. 2010)	*68,434*	*5,085,403*	*2,901,772*	*8,700,749*	*1,689,443*	*122,096*	*18,567,897*
Liabilities to customers – Other liabilities	8	207,851	68,585	16,354	75,364	5,405	373,567
(as at 31 Dec. 2010)	*0*	*129,798*	*91,649*	*14,963*	*71,969*	*2,816*	*311,195*
Total	167,608	3,742,508	3,701,522	8,658,917	2,418,696	131,817	18,821,068
(as at 31 Dec. 2010)	*68,434*	*5,215,201*	*2,993,421*	*8,715,712*	*1,761,412*	*124,912*	*18,879,092*
in %	1	20	19	46	13	1	100

	Liabilities to		
	Banks	Customers	Total
of which to:	EUR in thousands	EUR in thousands	EUR in thousands
Shareholders	0	0	0
Affiliated enterprises	18,412,064	0	18,412,064
Enterprises in which KfW IPEX-Bank holds a stake	0	0	0

Liabilities held in trust

	31 Dec. 2011	31 Dec. 2010	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	22,552,885	21,761,024	791,861
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	23,565	14,034	9,531
Total	22,576,450	21,775,058	801,392

Other liabilities

Other liabilities totalling EUR 42 million (previous year: EUR 71 million) chiefly relate to outstanding interest payments for the profit participation capital of KfW Beteiligungsholding GmbH for 2011 which total EUR 32 million and are not due until 2012. In addition, they contain the balancing items for the foreign currency translation of derivative hedges totalling EUR 6 million (previous year: EUR 9 million), pro rata interest for subordinated liabilities amounting to EUR 3 million (previous year: EUR 2 million), as well as liabilities to the financial authorities amounting to EUR 1 million (previous year: EUR 1 million).

Subordinated liabilities

KfW has granted KfW IPEX-Bank GmbH subordinated loans amounting to USD 1,740 million (unchanged from previous year), 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 KfW IPEX-Bank does not terminate 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 KfW IPEX-Bank does not terminate 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 KfW IPEX-Bank 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 (Gesetz über das Kreditwesen, KWG).

Interest expense for subordinated loans in 2011 amounted to the equivalent of EUR 19 million (previous year: EUR 21 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 502 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 KfW IPEX-Bank 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 (Gesetz über das Kreditwesen, KWG) and thus may be attributed to regulatory capital as supplemental capital.

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 2011 interest expense for the profit participation capital amounted to EUR 29 million.

Provisions

As well as the provisions for pensions and similar commitments amounting to EUR 69 million (previous year: EUR 64 million) and provisions for taxes amounting to EUR 10 million (previous year: EUR 35 million), additional provisions amounting to EUR 111 million (previous year: EUR 176 million) were recognised as at 31 December 2011. The latter relate in particular to provisions for credit risks amounting to EUR 71 million, liabilities to staff totalling EUR 18 million, and commitments with regard to archiving business records of EUR 6 million.

Deferred income

The deferred income totalling EUR 28 million (previous year: EUR 22 million) chiefly comprises discounts from receivables purchases amounting to EUR 23 million (previous year: EUR 18 million), as well as upfront interest payments from swaps that have been received but do not yet impact on income amounting to EUR 4 million (previous year: EUR 3 million).

Other required disclosures on liabilities and equity

Contingent liabilities

Business Sector	31 Dec. 2011	31 Dec. 2010	Change
	EUR in millions	EUR in millions	EUR in millions
Power, Renewables and Water	861	564	297
Manufacturing Industries, Retail, Health, Telecommunications[1)]	392	429	– 37
Aviation and Rail	287	344	– 57
Shipping	230	270	– 40
Basic Industries	162	199	– 37
Financial Institutions and Trade & Commodity Finance	144	121	23
Transport and Social Infrastructure	128	137	– 9
Leveraged Finance, Mezzanine, Equity	31	41	– 10
Total	2,235	2,105	130

[1)] *Including the business sector "Telecommunications and Media" reported separately in 2010*

The new guarantees given in the 2011 financial year amounted to EUR 799 million. In contrast, a total of EUR 669 million was redeemed.

Irrevocable loan commitments

Business Sector	31 Dec. 2011	31 Dec. 2010	Change
	EUR in millions	EUR in millions	EUR in millions
Power, Renewables and Water	1,018	975	43
Manufacturing Industries, Retail, Health, Telecommunications[1)]	982	1,577	– 595
Transport and Social Infrastructure	867	648	219
Shipping	753	921	– 168
Aviation and Rail	691	780	– 89
Basic Industries	609	583	26
Financial Institutions and Trade & Commodity Finance	324	89	235
Leveraged Finance, Mezzanine, Equity	296	213	83
Total	5,540	5,786	– 246

[1)] *Including the business sector "Telecommunications and Media" reported separately in 2010*

Total irrevocable loan commitments as at 31 December 2011 stood at EUR 5,540 million. The risks from these transactions are taken into account by creating portfolio loan loss provisions and individual loan loss provisions.

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 2011 financial year, the revenues from Frankfurt am Main and London were as follows:

	31 Dec. 2011			31 Dec. 2010			Change		
	Frankfurt	London	Total	Frankfurt	London	Total	Frankfurt	London	Total
	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
Interest income	648,338	21,801	670,139	668,833	15,431	684,264	–20,495	6,370	–14,125
Current income from									
a) Shares and other non-fixed-income securities	917	0	917	919	0	919	–2	0	–2
b) Investments	2,974	0	2,974	23,253	0	23,253	–20,279	0	–20,279
c) Shares in affiliated enterprises	0	0	0	0	0	0	0	0	0
Commission income	150,390	4,497	154,887	132,256	3,318	135,574	18,134	1,179	19,313
Other operating income	12,268	4,246	16,514	15,370	771	16,141	–3,102	3,475	373
Total	814,887	30,544	845,431	840,631	19,520	860,151	–25,744	11,024	–14,720

Other operating expenses

Other operating expenses remain unchanged from the previous year at EUR 26 million. They mainly include unrealised exchange losses from foreign currency valuation totalling EUR 19 million, and the expense for the banking levy of EUR 5 million that was payable in 2011 for the first time.

Other operating income

Other operating income amounting to EUR 17 million (previous year: EUR 16 million) chiefly relates to unrealised exchange gains from foreign currency valuation totalling EUR 14 million, and revenue for services provided to Group companies amounting to EUR 1 million.

Taxes on income

The taxes on income item totalling EUR 49 million (previous year: EUR 34 million) is made up of corporate income tax/capital gains tax including a solidarity surcharge totalling EUR 25 million, and trade tax of EUR 24 million.

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 2011.

Expenses and income resulting from currency conversions have been included in other operating income; 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 2011, total assets denominated in foreign currency converted in accordance with Section 340 h in conjunction with Section 256 a of the German Commercial Code (HGB) amounted to EUR 24.6 billion (previous year: EUR 23.9 billion), of which EUR 12.6 billion related to loans and advances to customers and 11.7 billion to assets held in trust. The previous year's figures are restated to take into account the change in accounting for the E&P promotional business so as to improve comparability.

The total liabilities denominated in foreign currency amounted to EUR 25.0 billion (previous year: EUR 24 billion), of which EUR 10.8 billion relates to liabilities to banks and 11.7 billion to liabilities held in trust.

Other financial liabilities

Total payment obligations arising from equity finance amounted to EUR 58 million (previous year: EUR 48 million).

Auditor's fee

Information on the total auditing fee can be found in the Group Notes of KfW Bankengruppe.

Valuation units

The volumes of underlying transactions in securities held as fixed assets and as the liquidity reserve hedged in valuation units against interest risks as at the balance sheet date are listed below.

	Nominal value		Carrying amount		Fair value	
	31 Dec. 2011	31 Dec. 2010	31 Dec. 2011	31 Dec. 2010	31 Dec. 2011	31 Dec. 2010
	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions
Fixed assets						
Bonds and other fixed-income securities	643	1,023	661	1,048	666	1,070
Shares and other non-fixed-income securities	11	11	8	9	9	10
Liquidity reserve						
Bonds and other fixed-income securities	64	64	65	65	67	69
Total	718	1,098	734	1,122	742	1,149

KfW IPEX-Bank uses derivatives only to hedge open positions. The option of accounting for economic hedges as valuation units is exercised solely in relation to securities held in the bank's book as designated underlying transactions. The effective parts of the valuation units created are accounted for using the net hedge presentation method (Einfrierungsmethode).

For securities held as fixed assets, micro valuation units are formed by combining fixed-income securities and hedging transactions (interest rate swaps).

The offsetting effect of the underlying and the hedging transactions is verified through a critical terms match. The critical terms match ensures the retrospective and prospective offsetting of fluctuations in value through the identity of the parameters affecting the value of the underlying and hedging transactions.

Owing to the fact that changes in value correlate negatively with comparable risks of underlying and hedging transactions, opposite changes in value or cash flows largely offset each other as at the balance sheet date. In view of the intention to hold the hedges until maturity, it can also be assumed going forward that effects will be virtually entirely offsetting with respect to the hedged risk until the expected maturities of the valuation units.

In connection with the hedging of interest rate risks in the bank's book, derivative financial instruments and interest-bearing underlying transactions used for this purpose form part of the asset/liability management, along with valuation units in accordance with Section 254 of the German Commercial Code (HGB). KfW IPEX-Bank manages the market value of all interest-bearing transactions in the bank's book as one unit. As at 31 December 2011, there was a positive present value.

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

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.

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 2011.

Derivative transactions - volumes

	Nominal values		Fair values positive	Fair values negative
	31 Dec. 2011	31 Dec. 2010	31 Dec. 2011	31 Dec. 2011
	EUR in millions	EUR in millions	EUR in millions	EUR in millions
Contracts with interest rate risks				
Interest rate swaps	12,164	8,622	434	701
Total	12,164	8,622	434	701
Contracts with currency risks				
Cross-currency swaps	380	152	3	17
FX swaps	51	283	1	1
Forward exchange swaps	2	17	0	0
Total	433	452	4	18
Shares and other price risks	0	0	0	0
Credit derivatives	0	0	0	0
Total	12,597	9,074	438	719

Derivative transactions – maturities

	Interest rate risks		Currency risks		Credit derivatives	
	31 Dec. 2011	31 Dec. 2010	31 Dec. 2011	31 Dec. 2010	31 Dec. 2011	31 Dec. 2010
	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions
Maturity						
up to 3 months	253	188	32	254	0	0
more than 3 months to 1 year	637	1,024	42	88	0	0
more than 1 year to 5 years	5,546	4,447	321	80	0	0
more than 5 years	5,728	2,963	38	30	0	0
Total	12,164	8,622	433	452	0	0

Derivative transactions – counterparties

	Nominal values		Fair values positive	Fair values negative
	31 Dec. 2011	31 Dec. 2010	31 Dec. 2011	31 Dec. 2011
	EUR in millions	EUR in millions	EUR in millions	EUR in millions
Counterparties				
OECD banks	8,405	6,940	21	714
Banks outside OECD	0	0	0	0
Other counterparties	4,192	2,134	417	5
Public sector	0	0	0	0
Total	12,597	9,074	438	719

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 7,981 million as at 31 December 2011 (previous year: EUR 6,998 million). In addition, financial guarantees amounting to EUR 33 million (previous year: EUR 36 million) were administered.

	31 Dec. 2011	31 Dec. 2010	Change
	EUR in millions	EUR in millions	EUR in millions
Market business	3,208	3,210	–2
E&P promotional business[1)]	4,773	3,788	985
Total	7,981	6,998	983

[1)] *Including EUR 580 million of refinancing for CIRR ship financings by third-party banks (previous year: EUR 319 million)*

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 Management Board (but including temporary staff) is calculated from the end-of-quarter figures during the 2011 financial year.

	2011	2010	Change
Female employees	248	246	2
Male employees	279	280	– 1
Staff not covered by collective agreements	446	455	– 9
Staff covered by collective agreements	81	71	10
Total	527	526	1

Compensation and loans to members of the Management Board and the Board of Supervisory Directors

The total compensation paid to members of the Management Board for the 2011 financial year was EUR 1,973 thousand. Details of the compensation of the members of the Management Board for the 2011 financial year are given in the following table:

Annual compensation[1)]

	Salary	Variable compensation	Other compensation[3)]	Total
	EUR in thousand	EUR in thousand	EUR in thousand	EUR in thousand
Harald D. Zenke (Speaker of the Management Board)	353	–	71	423
Michael Ebert[2)]	163	108	9	280
Christiane Laibach	353	45	21	418
Christian K. Murach	353	45	27	424
Markus Scheer	353	45	29	427
Total	1,573	243	157	1,973

[1)] *For arithmetic reasons, rounding differences may occur in the table*
[2)] *No longer member of the Management Board as of 31 March 2011*
[3)] *Other compensation comprises, essentially, the use of a company car, the cost of maintaining a secondary residence, insurance premiums payable as well as applicable taxes. In addition, the members of the Management Board are entitled to employee benefits pursuant to the German Social Insurance Code (Sozialgesetzbuch).*

The total compensation paid to the members of the Board of Supervisory Directors was EUR 122 thousand (gross). In addition, attendance fees amounting to EUR 52 thousand (gross) were paid. Remuneration is structured as follows: annual compensation amounts to EUR 22 thousand (net) for membership of the Board of Supervisory Directors and EUR 28 thousand (net) for the chairmanship; in addition, attendance fees of EUR 1 thousand are payable for meetings of the Supervisory Board and the Loan, Executive and Audit committees respectively, in each case pro rata where membership is for less than the whole year. Compensation of members of the Executive Board of KfW who, on the basis of Section 9 (1) of the Articles of Incorporation of KfW IPEX-Bank are members of the Board of Supervisory Directors, was suspended with effect from 1 July 2011 until further notice.

As at 31 December 2011, provisions for pensions for former members of the Management Board and their dependents stood at EUR 5,258 thousand.

Former members of the Management Board received one-off payments in the financial year of EUR 581 thousand.

As at 31 December 2011, there were no loans outstanding to members of the Management Board.

Board of Supervisory Directors

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

Dr Hans Bernhard Beus
(State Secretary, Federal Ministry of Finance)

Jochen Homann
(State Secretary, Federal Ministry of Economics and Technology)
from 1 July 2011

Bernd Loewen
(Member of the Executive Board of KfW)
from 1 July 2011

Dr Bernd Pfaffenbach
(State Secretary, Federal Ministry of Economics and Technology)
until 31 May 2011

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

Dr Ulrich Schröder
(Chief Executive Officer of KfW)
until 31 March 2011

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

Management Board

Harald D. Zenke
Böblingen
(Speaker of the Management Board)

Michael Ebert
Mainz
(Member of the Management Board until 31 March 2011)

Christiane Laibach
Frankfurt am Main

Christian K. Murach
Sulzbach (Taunus)

Markus Scheer
Hofheim am Taunus

Frankfurt am Main, 14 February 2012

Christiane Laibach

Christian K. Murach

Markus Scheer

Harald D. Zenke
(Speaker)

AUDITOR'S REPORT

Auditor's report

We have audited the annual financial statements - consisting of balance sheet, income statement and notes - together with the accounting as well as the management report of KfW IPEX-Bank GmbH, Frankfurt am Main, for the fiscal year from 1 January to 31 December 2011. The accounting, the financial statements and the management report are the responsibility of the Management Board of the bank and must comply with the German regulations on commercial practice. Our responsibility is to express an opinion on the financial statements including the accounting and on the management report based on our audit.

We conducted our audit of the financial statements in accordance with Section 317 of the 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 financial statements in accordance with the 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 bank 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 accounting, the 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 and significant estimates made by the Management Board, as well as evaluating the overall presentation of the financial statements and the management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

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

Frankfurt am Main, 1 March 2012

KPMG AG
Wirtschaftsprüfungsgesellschaft

Mock
Certified accountant

Schweitzer
Certified accountant

CORPORATE GOVERNANCE REPORT

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

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

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

Declaration of Compliance

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

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

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

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

Cooperation between the Management Board and the Board of Supervisory Directors

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

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

Management Board

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

Through the appointment of Mr Harald D. Zenke as of 1 January 2011 and the retirement of Mr Michael Ebert from the Management Board as of 31 March 2011, and due to the relocation in KfW of the Controlling and Financial Statements departments from the area of Finance, the responsibilities of members of the Management Board of KfW IPEX-Bank GmbH changed as followed in the reporting year:

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

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

Board of Supervisory Directors

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

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

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

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

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

The Loan Committee is responsible for all credit related issues.

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

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

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

Shareholder

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

Supervision

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

Protection of Deposits

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

Transparency

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

Risk Management

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

Compliance

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

Accounting and Annual Audit

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

Efficiency Review of the Board of Supervisory Directors

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

Compensation Report

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

Compensation for the Management Board

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

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

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

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

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

Responsibilities

The shareholder consults regularly regarding the compensation system for the Management Board, including its contractual elements, and reviews it on a regular basis. The shareholder approves the compensation system after consulting with the Board of Supervisory Directors. The most recent review of its appropriateness occurred in the framework of the negotiations of new contracts for the Management Board in 2010.

The following overview presents the total compensation for the individual members of the Management Board, divided into fixed and variable compensation components and other compensation, as well as additions to pension provisions.

Contractual fringe benefits

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

The members of the Management Board are insured in a group accident insurance policy.
In addition, the members of the Management Board receive employer benefits as per the Social Security Code. There are two insurance policies available to members of the Management Board regarding the risks associated with their activities in the bank's governing bodies: first, a policy that covers their liability for monetary damages (D&O insurance) and second, a supplementary monetary damages legal protection insurance. These insurance policies are designed as group insurance. The D&O insurance provides protection against financial losses that may arise out of the performance of duties as a Managing Director of KfW IPEX-Bank GmbH. There is currently no deductible associated with this insurance. As part of their activities, the members of the Management Board of KfW IPEX-Bank GmbH are also included in a special criminal law protection insurance for employees that was established as a group insurance policy.

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

Annual compensation to members of the Management Board and additions to pension provisions during 2011 and 2010 in EUR thousands[1)]

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

1) *Some independent rounding may occur in the table due to computational reasons.*
2) *Other compensation in the case of premature retirement*

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

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

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

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

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

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

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

Provisions for pension obligations for former members of the Management Board and their dependants totalled EUR 5,258 thousand at the end of the business year 2011 (previous year: EUR 2,556 thousand).

Compensation for the Board of Supervisory Directors

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

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

Remuneration of the Board of Supervisory Directors for 2011 in EUR

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

[1] *Lump sum EUR 1,000 net per meeting attended.*
[2] *This amount is subject to the German Incidental Services Earnings Regulation (Bundesnebentätigkeitsverdienstverordnung).*

Remuneration to the Board of Supervisory Directors for 2010 in EUR

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

[1] *Lump sum EUR 1,000 net per meeting attended*
[2] *This amount is subject to the German Incidental Services Earnings Regulation (Bundesnebentätigkeitsverdienstverordnung).*

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

Effective 1 July 2011, the representatives of KfW in the Board of Supervisory Directors of KfW IPEX-Bank GmbH have for the first time waived the compensation and attendance fees for the rest of the business year 2011 in accordance with a general decision of unlimited duration by the Executive Board of KfW to waive compensation for group-internal mandates.
Details regarding the remuneration of the Board of Supervisory Directors during the 2011 and 2010 financial years are listed in the following tables; travel expenses and other miscellaneous expenses were reimbursed based upon receipts and are therefore not included in this table. The indicated amounts are net values and were all paid.

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

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

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

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

Frankfurt, 19 March 2012

The Management Board

The Board of Supervisory Directors

Imprint

Published by:
KfW IPEX-Bank GmbH
Corporate Strategy and Communication
Palmengartenstrasse 5–9, 60325 Frankfurt am Main
Germany
Phone 069 7431-3300, Fax 069 7431-2944
info@kfw-ipex-bank.de, www.kfw-ipex-bank.de

Editorial team:
GOEGELE PUBLIC RELATIONS, Bad Soden
KfW IPEX-Bank GmbH, Frankfurt am Main

Design und realisation:
MEHR Werbe- und Projektagentur, Düsseldorf

Lithography: Laser-Litho4, Düsseldorf

Printing: Mareis Druck, Weißenhorn

Printed on:
Heaven 42, Igepa group
PlanoPlus, Papyrus

Photographs

Photographs:
Nils Hendrik Müller, Braunschweig | page 5, 7, 14, 20, 24
P+S Werften GmbH, Stralsund | page 11
Enercon GmbH, Aurich | title, page 17
Flabeg Holding GmbH, Nürnberg | title, page 21
Matthias Frey, Kernen | page 22
Rheinbahn AG, Düsseldorf | title, page 23
Hüttenwerke Krupp Mannesmann GmbH, Duisburg | title, page 32, 33
KfW Bildarchiv, Thomas Klewar | page 26

Other picture sources:
Getty Images, München | page 3, 10
laif Agentur für Photos & Reportagen GmbH, Köln | page 16

600 000 2401

KfW IPEX-Bank GmbH

Palmengartenstrasse 5–9

60325 Frankfurt am Main

Germany

Phone +49 69 7431-3300

Fax +49 69 7431-2944

info@kfw-ipex-bank.de

www.kfw-ipex-bank.de

KFW IPEX-Bank