ANNUAL REPORT 2010

kfw
IPEX-BANK

2010

VOLUME OF LENDING OF THE INTERNATIONAL PROJECT AND EXPORT FINANCE BUSINESS AREA

	2010
Volume of lending of the business area[1] – by business unit	EUR in billions
Shipping	13.4
Aviation and Rail	11.9
Power, Renewables and Water	10.2
Basic Industries	7.0
Transport and Social Infrastructure	7.0
Manufacturing Industries, Retail, Health	5.5
Telecommunications, Media	2.1
Financial Institutions, Trade & Commodity Finance	1.7
Leveraged Finance, Mezzanine, Equity	1.1
Total	59.9

[1] *Managed by KfW IPEX-Bank*

KFW IPEX-BANK GMBH KEY FIGURES

	2010	2009
Balance sheet figures of KfW IPEX-Bank GmbH	EUR in billions	EUR in billions
Total assets	23.8	25.7
Volume of lending	29.5	31.5
Contingent liabilities	2.1	2.3
Irrevocable loan commitments	5.8	6.8
Assets held in trust	0.0	0.1
Volume of business (total assets, contingent liabilities, irrevocable loan commitments)	31.7	34.8
Equity	2.6	2.4
Equity ratio (in %)	10.8	9.4
Results	EUR in millions	EUR in millions
Operating income before risk provisions/valuations	250	321
Risk provisions and valuations	– 33	– 467
Net income/net loss for the year	145	– 140
Result of Project and Export Finance business area (segment report consolidated financial statements of KfW Bankengruppe)	889	1
Number of employees of KfW IPEX-Bank GmbH	**526**	**521**

STRONG PARTNER FOR GLOBAL COMPETITION

The German industry needs appropriate financings for their specialised business in order to reach their full potential on the global markets. KfW IPEX-Bank has been a reliable partner for the export industry for nearly 60 years. We accompany our customers through all project phases, provide advice on financing questions and develop tailor-made financing solutions for complex projects – also in difficult markets. Our international network is viable, our deep sector knowledge is reliable. Strong projects deserve extraordinary support – across all borders.

KFW IPEX-BANK

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DEAR READERS

The year 2010 had its own, unique set of dynamics for our business. On the one hand, it was characterised by the aftermath of the financial crisis. On the other hand, the economy recovered noticeably, particularly in the second half of the year. Our bank decisively used the opportunities that arose from this recovery – being a reliable partner for our customers in new business, and achieving excellent financial results for the year. KfW IPEX-Bank focused on its mission to strengthen the German and European economies for the long term and on its core competencies as a project and export financier. A proactive risk management policy and a business model focused on sustainability were important foundations in this regard.

The West Arcade, the Frankfurt headquarters and face of KfW IPEX-Bank, is one of the most energy-efficient office buildings in the world.

Thanks to the tremendous dedication and commitment of our employees, as well as our many years of experience and knowledge of the market as a specialist bank, we were able to achieve our mission in 2010 in two respects. The volume of new commitments totalling EUR 9.3 billion confirms that we were well prepared for the onset of economic recovery. We actively and successfully utilised this achievement to support German and European projects and ventures, while working intensively together with our customers in close partnership. In addition, for existing commitments that were experiencing difficulties we developed viable and sustainable solutions, even though the market environment continued to be challenging. In that way, we contributed to the ongoing preservation of companies and jobs.

Last year's success is also reflected in our financial performance. The net profit of KfW IPEX-Bank GmbH was EUR 145 million. And the KfW International Project and Export Finance business area, for which we are responsible, contributed EUR 889 million to the 2010 group profit of KfW, an excellent result when compared to previous years.

These figures are also extraordinary when compared to long-term averages. They are the result of a series of individual factors, particularly substantially lower risk provisioning in the reporting year: expenses for risk provisions were down significantly compared to the previous year because of the stable risk structure in the loan portfolio.

This successful business results from our focus on the lines of business where we have many years of experience and comprehensive know-how, namely, support for the German and European export industries, financing of means of transport, infrastructure investments, projects related to global environmental and climate protection, and projects that secure the supply of raw materials. This solid market position as the foundation for future performance is also the result of the many years of commitment by Heinrich Heims; his successor as Speaker of the Management Board, Harald D. Zenke was appointed as of 1 January 2011.

Christian K. Murach **Michael Ebert** **Christiane Laibach** **Markus Scheer**

CLOSE AND CONSTRUCTIVE COOPERATION

The 2010 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 2010 financial year, a total of four regular and two extraordinary meetings of the Board of Supervisory Directors were held. At the beginning of every regular meeting, 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.

In the first meeting on 19 March 2010, we reviewed the annual financial statements for the previous financial year and approved the report of the Board of Supervisory Directors. We also considered in depth the areas of business that KfW IPEX-Bank GmbH would focus on and its resulting business plan for the years 2010 to 2012. In addition, we agreed, using an anticipatory resolution, to borrowings on a case by case basis by KfW IPEX-Bank GmbH from certain promotional institutions of the federal states, and were consulted regarding the remuneration for the Management Board for the previous year and the objectives for the Management Board for the current financial year. Furthermore, we received a report on the status for the implementation of the Public Corporate Governance Code (PCGC) of the Federal Government, and we approved the decision to reduce the investment of KfW IPEX-Bank GmbH in aucip. automotive cluster investment platform GmbH & Co. KG. Finally, we acknowledged the reports of the Loan and Audit Committees.

In the meeting of 18 June 2010, we discussed the risk situation of the bank, with particular attention directed towards the subsequent activities that resulted from our business area focus. In addition, we discussed several special subjects and acknowledged the reports from the Loan and Audit Committees, as well as the report from the securities compliance officer. Furthermore, we were informed about the changes to the rules and regulations of KfW IPEX-Bank GmbH resulting from the implementation of the PCGC, and we pledged to respect the code. In this context, we decided to change the rules of procedure for the Board of Supervisory Directors and, following consultations, approved the changes to the rules of procedure for the Management Board.

In addition to the revenue and risk situation, the meeting on 17 September 2010 focused on business performance, the impact of Basel III on KfW IPEX-Bank GmbH and, in particular, the current status of the strategy implementation and its consequences. Additionally, the project – Management of the Export and Project Finance (E&P) Business area of KfW – with the associated transfer of controling, accounting and reporting functions, risk methods and instruments into KfW, was introduced to us and discussed in great detail. Following a clarification regarding the questionnaires concerning the efficiency review of the Board of Supervisory Directors pursuant to the PCGC, we acknowledged the reports from the Audit and Loan Committees and the report regarding the extraordinary meeting of the Executive Committee.

Following a discussion of the business performance, revenue, and risk situation of the bank, the requirements of Basel III were discussed again in the meeting on 3 December 2010. In addition, the remuneration scheme for KfW IPEX-Bank GmbH was introduced. The meeting was dominated by a discussion about the 2011 group business area planning, and the contents and consequences of the project Management of the E&P Business area. Reports from the Audit and Loan Committees were discussed, and we also made decisions regarding the funding volume of KfW IPEX-Bank GmbH in the 2011 financial year. Furthermore, the agreement regarding targets for the Management Board was discussed, and we were informed that the results from the questionnaires regarding the efficiency review of the Board of Supervisory Directors were being evaluated.

In addition to its regular meetings, the Board of Supervisory Directors conducted two extraordinary meetings in the last financial year. In the extraordinary meeting on 12 August 2010, consultations were held regarding the departure of Mr Heinrich Heims as member and Speaker of the Management Board of KfW IPEX-Bank GmbH together with associated contractual issues. On 27 October 2010, the Board of Supervisory Directors consulted on the appointment of Mr Harald D. Zenke as member and Speaker of the Management Board of KfW IPEX-Bank GmbH together with associated contractual issues.

There were also various personnel changes in the Board of Supervisory Directors during the reporting year: due to the reduction in its size that occurred at the start of the year, the Board of Supervisory Directors now consists of six members. State Secretary Werner Gatzer stepped down from his position on the Board of Supervisory Directors as of 31 January 2010. State Secretary Dr Bernhard Beus was named as his successor; he assumed this mandate effective 4 March 2010. Furthermore, new appointments and a reorganisation of the committees occurred because of the reduction in the size of the board.

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 was only one conflict of interest situation in the voting process of the Board of Supervisory Directors and its committees during the financial year. In this case, the member involved did not participate in the vote in the Loan Committee regarding an intercompany loan.

The Audit Committee discussed the results of the annual audit in its meeting on 23 March 2011 and agreed them; thereafter, it recommended that the Board of Supervisory Directors approve the annual financial statements and the management report. The discussion centered on the KPMG AG audit report (partial audit report II) covering the audit of the annual financial statements as of 31 December 2010 that were provided by the Management Board on 8 February 2011, and the management report for the financial year 2010. KPMG issued an unqualified audit opinion on 4 March 2011.

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 23 March 2011. 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 the unappropriated surplus for the year totalling EUR 4.1 million to revenue reserves.

We would like to thank the Management Board and all employees for their commitment and hard work during the 2010 financial year.

Frankfurt am Main, 23 March 2011
For the Board of Supervisory Directors

Dr Norbert Kloppenburg
Chairman

FURTHER EXPANSION OF THE MARKET POSITION OF KFW IPEX-BANK AS A LEADING PROJECT AND EXPORT FINANCIER

In parallel with the economic recovery, we are seeing increasing competition and pressure on margins in our lending business. We are addressing this through a clear focus on our strengths: we support the domestic export economy in maintaining and expanding its global market share; we finance means of transport, infrastructure initiatives and projects related to global environmental and climate protection, and we secure the supply of raw materials for Germany. We will strengthen and further expand our market position in these areas as a leading specialist financier.

The Management Board of KfW IPEX-Bank

/ Christian K. Murach

/ Christiane Laibach

/ Markus Scheer

For us, the focus on our core competencies primarily means the further development of our customer orientation: this means providing comprehensive consulting services regarding financing questions, accompanying our customers as partners in global competition, and the development of special financing solutions for complex projects in difficult markets. Our range of products is consistently geared towards the needs of the market.

We make an important contribution to the global commercial success of our customers as a specialist with structuring know-how and proven market and industry knowledge. Because of our regional presence in the most important foreign markets of the German and European export industries, and our proximity to the international network of KfW, we can support our customers worldwide as a reliable advisory partner for even the most demanding financing needs – from the conception phase of a project through the repayment of external financing.

A decisive factor in the expansion of our market position in international project and export financing is, and will remain in the future, the commitment and significant technical expertise of our employees. They are our biggest asset; their value, dedication and job satisfaction must be sustained. Work life balance is a high priority for us. For that reason, we are particularly proud that in 2010 we were once again named as a family friendly company by an independent entity, the Hertie Foundation.

/ *Michael Ebert*

/ *Harald D. Zenke (since 1 January 2011)*

"Our mission is to accompany our customers – including German mid-sized companies – on their journey towards internationalisation. Our strength is our ability to understand the technology oriented entrepreneur of the domestic export economy better than our competitors, thanks to our deep understanding of the industry."

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


SIEMENS

A RELIABLE PARTNER AND MOTOR OF THE EXPORT ECONOMY

As an international specialist financier, KfW IPEX-Bank focuses on its mission to strengthen the export economy for the long term. European and especially Germany companies are global leaders in many technologies – for example in energy production. The construction of the gas and steam power plants Sohar II and Barka III in Oman is a milestone in the long term development of the power sector in this region. With the financing of this project, KfW IPEX-Bank fulfils its mission in two ways: it supports the export economy while also contributing to global climate protection.

Two powerful gas turbines from Siemens AG are at the heart of the construction of the new gas and steam power plants Sohar II and Barka III in Oman.

EXPANSION OF OUR INTERNATIONAL MARKET POSITION

For almost sixty years, KfW IPEX-Bank has supported German and European companies in exporting successfully. We specialise in international project and export finance, not just for large companies and their customers, but above all for SMEs (mid-sized companies) as an important pillar of our economic system. The focus of our work is financing to support the export economy, the realisation of environmental and climate protection projects, the financing of means of transport, infrastructure projects and securing the supply of raw materials for industry.

As the original export bank, KfW IPEX-Bank combines the strengths of a successful bank with the values of a promotional institution.

Preservation of jobs and economic growth

With a 20 % share of worldwide imports and exports, the European Union is the world's largest trading power. The products and services of German and European companies are in demand more than ever. Experts forecast that the total volume of German exports will exceed the one trillion euro threshold for the first time in 2011. Almost half of our domestic economic output is dependent upon exports. Foreign trade not only safeguards existing jobs, it also creates additional growth and fosters innovation. However, the opportunities presented by international cooperation can only be fully utilised if export companies have reliable sources of financing in addition to free trade and access to target markets. In that way, they can focus on their core competencies and leave the supply of liquidity and risk taking to an experienced bank.

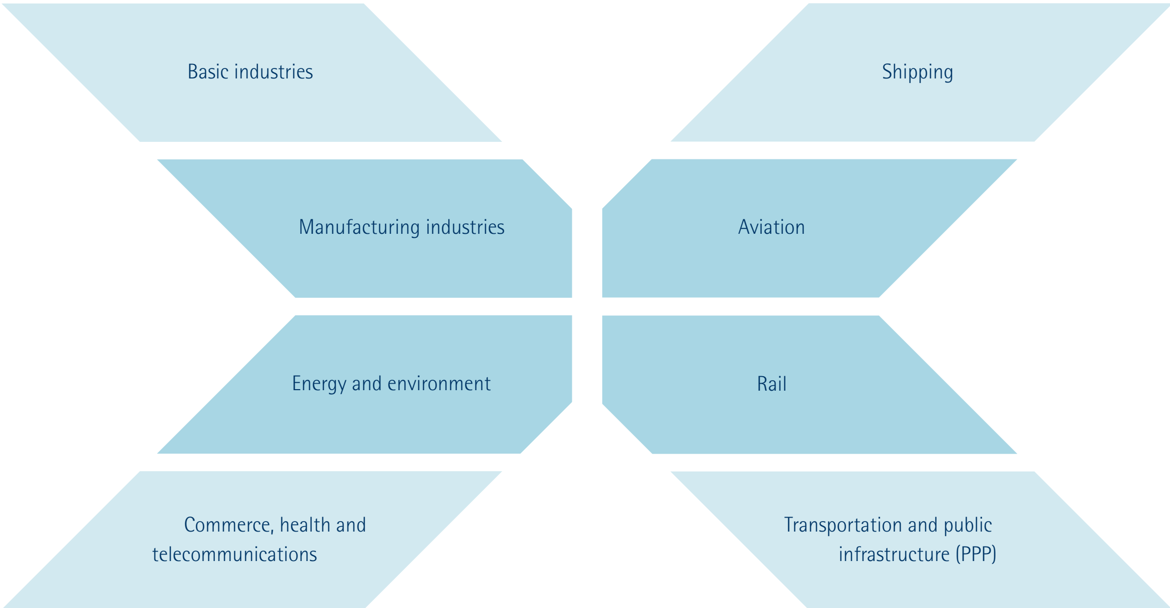
Many years of experience and industry expertise

As a reliable partner and motor of the export economy, KfW IPEX-Bank has supported companies since the early 1950s in safeguarding their current market positions and developing new markets throughout the world. As a credit institution with global operations and a long-term approach to business, we develop and implement the right financing solutions together with our customers. We offer a wide range of products, from classic tied export loans to complex structured financing transactions in local currencies. In that way, our customers benefit from our comprehensive industry expertise and from our many years of experience in the field of export financing, the financing of environmental and climate protection projects, as well as means of transport and infrastructure projects. Another priority of our services is to secure the supply of raw materials for our industry.

"In order for the export economy to develop its full potential, companies need more than just open markets, they also need the right financing. We offer this financing using our combination of regional contacts in the export markets of Germany's economy, our structuring competency and our in-depth know-how of the industry."

Harald D. Zenke

Presence and expertise in strategic industries



To strengthen its market position as a leading project and export financier, KfW IPEX-Bank focuses on its competencies in the key industries of the domestic economy.

The financing of export businesses also contributes to improvements in the quality of life in the recipient countries.

The promotion of the export industry is a part of our legal mandate to strengthen the German and European economies for the long term in light of the ongoing process of globalisation. KfW IPEX-Bank has the task of fulfilling this mandate as part of its responsibility for the Export and Project Finance business segment within KfW Bankengruppe. As a legally independent subsidiary, it combines the strengths of a successful commercial bank with the values of a promotional institution.

Individualised credit solutions, also for the SME sector

A special focus of our activity is the SME sector as an essential pillar of our economy. Small and medium sized enterprises (SMEs) generate approximately 10 per cent of their revenues abroad – and this percentage is rising. They account for approximately one fifth of all export sales, totalling approximately EUR 200 billion annually. About 90 per cent of all companies that began exporting for the first time in recent years can be considered an SME. We provide larger SMEs with individualised credit solutions that are tailored to their own individual needs and special requirements. We can also provide financing for smaller export businesses as part of our partnership with Northstar Europe, a subsidiary of Canadian Northstar Trade Finance, which has been in place since November 2009.

An example of this type of export support for an SME is Wietmarscher Ambulanz- und Sonderfahrzeug GmbH (WAS). This SME is delivering more than 150 VW commercial vehicles that have been converted into ambulances and mobile clinics to the Republic of Ghana. As the European market leader for ambulance conversions, WAS is one of the genuine "hidden champions".

Following their conversion, the vehicles will be delivered to the Ghanaian Ministry of Health from the summer of 2011 onwards and used thereafter by its National Ambulance Service. They are urgently needed there to provide medical services, particularly for the rural population, since the majority of the population in the provinces of Ghana can only access medical services under difficult circumstances. This financing totalling more than EUR 10 million with a six year maturity will contribute to improving the quality of life in this heavily overdeveloped country.

"The export financing of KfW IPEX-Bank was the precondition that enabled us first to accept this large order from the Republic of Ghana for the construction of the ambulances. Thereafter, its strong network in West Africa also helped us tremendously with the implementation and fulfilment of the business."

Peter Kuhn, Managing Director of Wietmarscher Ambulanz- und Sonderfahrzeug GmbH

THE FUTURE FIRMLY IN SIGHT

In order to continue to develop its market position as one of the leading project and export financiers, KfW IPEX-Bank refined its profile further in 2010. It will focus its market position as a specialist financier for the German and European economies on those segments of the market where its special strengths lie: the support of the German and European export industry, the financing of infrastructure projects and means of transport, global environmental and climate protection projects, and the securing of raw materials supplies.

In this way, KfW IPEX-Bank also simultaneously fulfils its goal of being a reliable partner worldwide to assist its customers with demanding financing needs. As part of this business area focus, we want to expand our presence in strategic markets even further in order to continue fulfilling our role in the future as the motor of the export economy.

EXPERIENCE AND KNOWLEDGE MEAN RESPONSIBILITY

In March 2010, the Federal Minister of Economics, Rainer Brüderle, introduced his foreign trade offensive. Its declared goal is that companies should be able to make the best use possible of their opportunities in international competition. One aspect of this initiative should be cooperation with the export industry to further develop the export finance guarantee as a successful foreign trade instrument, and to strengthen its focus towards meeting the needs of SMEs.

Based upon its many years of experience with export financing, KfW IPEX-Bank is a sought after partner and adviser on this subject. For example, experts from the bank participate in the Interministerial Committee on Export Credit Guarantees and Export Guarantees. Furthermore, it provides delegates to the European Union and the OECD.

On behalf of the Federal Government and KfW, KfW IPEX-Bank carries out the ERP export financing programme. ERP stands for "European Recovery Programme" and has its roots in the Marshall Plan. Under the administration of the Federal Ministry for Economics and Technology, the ERP export financing programme is used today to promote the economy in Germany and for German development aid, as the programme can be used to grant loans to finance exports to industrialising and developing countries. Furthermore, we offer financing solutions for smaller export projects in cooperation with Northstar Europe. Using a simplified application process, Northstar provides financing volumes totalling between EUR 500,000 to EUR 5 million, which are particularly needed by SME exporters.

ENVIRONMENTAL AND CLIMATE PROTECTION IN FOCUS

KfW IPEX-Bank uses its financing know-how and solid market and industry expertise to make an important contribution to global environmental and climate protection. For example, with GBP 40 million to finance the construction of the thermal waste treatment facility "Runcorn II" in England. This innovative CHP Combined Heat and Power Plant processes up to 375,000 tonnes of household waste per year to generate electricity and district heat. The customised project financing of KfW IPEX-Bank contributes to reducing CO_2 emissions and tapping alternative energy sources.

Household waste transformed into electricity and district heat. The CHP Combined Heat and Power Plant "Runcorn II" in Cheshire, England, will be one of the largest and most efficient plants of its kind in Europe.

RESPONSIBILITY FOR ENVIRONMENTAL AND CLIMATE PROTECTION

Environmental and climate protection is a major global challenge. With its financings in the areas of renewable energies and climate protection as well as water supply, waste water management and waste management, KfW IPEX-Bank makes an important contribution to achieving national, European and global environmental and climate protection goals. Its business approach is characterised by a sustainable and long-term focus.

Climate protection measures contribute measurably to reducing CO_2 emissions. In this regard we act as an experienced and reliable partner who commits the necessary financial solutions for climate friendly investments.

Comprehensive financing competence combined with years of experience and know-how in the areas of renewable energies and climate protection as well as water supply, waste water management and waste management.

Innovative technologies reduce impacts

KfW IPEX-Bank's activities in the area of environmental and climate protection extends far beyond financing projects for generating renewable energy from wind power or photovoltaics. This is exemplified by the construction in 2010 of a thermal waste treatment facility "Runcorn II" for GBP 40 million in Cheshire, England. The borrowers are the waste management company Viridor and its parent company Pennon Group, one of the leading British corporations in the area of waste management, recycling, renewable energies as well as water supply and sanitation.

Here KfW IPEX-Bank as specialised financier is supporting not only the necessary modernisation of Great Britain's waste disposal infrastructure, but also contributes to reducing CO_2 emissions and tapping alternative energy sources. The construction of the modern CHP Combined Heat and Power Plant "Runcorn II" contributes to achieving European and global environmental and climate protection goals – in this case to fulfilling the requirements of the EU Directive 1999/31/EG from 26 April 1999 concerning waste disposal in landfills. The intention of this European Union directive is to significantly reduce and, if possible, avoid the health hazards and harmful effects to the soil, the groundwater and the air.

"The construction of our highly-efficient CHP Combined Heat and Power Plant in Runcorn cofinanced with a loan from KfW IPEX-Bank is an important step in the modernisation of the waste disposal infrastructure in greater Manchester. Together with the Runcorn I plant constructed in the first building phase, the completed facility will supply 70 megawatts of electricity and 51 megawatts of district heat per year."

Colin Drummond, Chief Executive, Viridor Limited

The innovations in waste management since 1990 in Germany alone have reduced CO_2 emissions corresponding to the amount emitted by 7.7 million

"European and in particular German companies are global leaders in technologies for efficient generation of energy. By helping spread this know-how beyond Europe as well, we are fulfiling our mission in two ways: We support the export industry and at the same time contribute to global climate protection."

Markus Scheer

automobiles, which is equal to 20 per cent of the registered cars in Germany.

Competent support based on years of experience

Active environmental and climate protection is essential for the continuing existence of mankind. The sustainability and future viability of our way of life can be promoted and secured through the development and use of innovative technologies. As environmental impacts do not stop at national borders, the export industry attains an important role in this regard: German industries already make up an impressive 16 per cent share of the world market for environmental technologies and services. The environmental sector thereby secures economic growth and domestic employment of almost two million people. The greatest competencies are primarily in environmentally-friendly energy generation and waste separation and processing, the technological application of which is dependent on extensive financings. Estimates of the financing needed to implement the climate protection goals in Germany by 2020 amount to about EUR 400 billion.

KfW IPEX-Bank has many years of experience in financing innovative environmental and climate change technologies. This includes comprehensive know-how in the areas of renewable energies, climate protection as well as water and sanitation. It is precisely this combination that gives us the ability to support and advise our customers as a reliable and competent partner from the initial idea to the practical implementation of technologies. In this context we also feel a special responsibility to trigger a broad-based economic and societal transformation - nationally, in Europe and on the global level. In this area, KfW IPEX-Bank fulfils KfW's legal mandate and supports the declared objectives of the Federal Government. Our business approach, with its sustainable and long-term focus, further aids this process.

ORIENTATION ON THE SUSTAINABILITY GUIDELINES

As a specialised credit institution for project and export finance we are well aware of our particular social responsibility. We assess all projects financed by KfW IPEX-Bank regarding their environmental and social impact in accordance with the sustainability guidelines of KfW Bankengruppe. These are based on the Environmental Protection Guidelines, which have now existed for ten years and have been adapted several times to the current developments in corporate social responsibility.

Due to its international orientation and the resulting global ecologic, social and economic responsibility, KfW IPEX-Bank became a signatory to the Equator Principles Financial Institutions (EPFI) in 2008. The so-called "Equator Banks", which currently number 70, are in constant dialogue with one another regarding the further development of the standards they represent. KfW IPEX-Bank actively participates in this dialogue, and their own environmental and social guidelines in part even go beyond the required standards of the Equator Banks.

In addition, KfW Bankengruppe and thereby KfW IPEX-Bank has been a supporting member of the Extractive Industries Transparency Initiative (EITI) since 2010. EITI is a voluntary association of stakeholders comprising governments, private sector companies and civil society, aimed at ensuring the accountable payment of revenues from raw materials extraction into the national budgets of the respective resource-rich developing countries and their use for sustainable development.

Aside from these aspects, sustainability is also reflected in corporate environmental protection at KfW IPEX-Bank: Our Frankfurt headquarters, the new "West Arcade", is among the "greenest" office buildings in the world due to its low energy consumption.

LEADERS IN THE FINANCING OF INFRASTRUCTURE PROJECTS

Based upon its many years of experience, KfW IPEX-Bank, as one of the leading ship financiers, can develop and offer tailored financing. One example of this capability is the construction of two ferries for the German-Danish shipping company Scandlines, which is very important not only because it utilises the shipyard capacities in Mecklenburg-Vorpommern, but also because it promotes the development of new technologies.

KfW IPEX-Bank financed the state-of-the-art RoPax "made in Germany" ferries, which carry up to 1,500 passengers and 90 trucks or 460 cars per trip on their traditional route between Rostock and Gedser (Denmark).

SECURING THE FUTURE THROUGH INFRASTRUCTURE FINANCING

With the financing of infrastructure projects, KfW IPEX-Bank is active in a promising line of business. Based upon its many years of experience in the shipping and aviation industries, in public infrastructure and logistics, as well as ports and airports, KfW IPEX-Bank can develop and offer tailor-made financing. We also target our engagement as well as our ability to analyse and react quickly to industry-specific developments, particularly towards markets where access to financing is difficult. In that way, KfW IPEX-Bank also makes an important contribution to preserving jobs.

We support the creation of functioning infrastructural facilities as one of the most important foundations of our economic development in a world characterised by globalisation and division of labour.

Lifelines of the global economy

Transport systems and infrastructural facilities connect people, enable trade and put goods into motion. They move energy, raw materials and information to where they are needed. A functioning infrastructure is one of the most important foundations of our economic development in a world characterised by globalisation and division of labour. At no time in the past have our private lives and the working world been so dependent on transport routes, data lines, pipelines, networks, and transport systems as they are today. More than 2.8 million people in Germany are employed in the transport and logistics industry alone. That is approximately eight per cent of total employment in Germany.

KfW IPEX-Bank also takes responsibility for the future viability of our society with the financing of infrastructure projects. For example, it participates in projects under the Trans-European Networks (TEN) initiative, the large infrastructure networks in the transport, energy and telecommunications industries, which play a central role in the economic and social development of the EU's single market.

Management of risks

The often long and costly planning process, together with potential uncertainties regarding the construction and operation of infrastructure projects, present the operating companies with

"For means of transport, such as ships, aircraft and locomotives, as well as for roads, data cables and pipelines, the same principle applies: we finance the infrastructure that allows industry to successfully export its goods and services."

Christian K. Murach

"The contract from the shipping line Scandlines that was financed by KfW IPEX-Bank has preserved jobs in Mecklenburg-Vorpommern. In addition, we are developing new technologies that will enable us to position ourselves even better in international competition."

Dr-Ing. Dieter Brammertz, Chairman of the Management Board of P+S WERFTEN GmbH

unique challenges. Based upon our competencies in the areas of public infrastructure and logistics, as well as ports and airports, we employ precisely tailored financing to make project risks predictable. Our commitment and our ability to evaluate and react appropriately to industry specific trends are targeted specifically towards meeting the needs of our customers – even in markets where access to financing is difficult. In that way, our commitment as a partner with a long term vision ensures the preservation and expansion of economic and social infrastructures, the further development and implementation of means of transport, the security of raw materials supplies, and thus the production base of the German and European economies.

Our aim is to create connections

As one of the leading ship financiers, we are just as experienced in the role of lead arranger of international bank consortiums for the construction of the world's largest cruise ships as we are in the role of financing ferries that travel between different countries. For example, KfW IPEX-Bank provided financing in 2010 for two state-of-the-art RoPax ferries that are being built at the Volkswert shipyard, which is the Stralsund location of the P+S Werften Gmbh, and will be used on the historic ferry line between Rostock and the Danish city of Gedser. The construction of these two ferries for the German-Danish shipping line Scandlines is very important not only because it utilises the capacity of shipyards in Mecklenburg-Vorpommern. Fulfilling the contract also allows the shipyard group to develop new technologies, which it can then apply in international competition.

Furthermore KfW IPEX-Bank is one of the world's largest specialist financiers for the aviation industry. Here it supports its customers as a reliable partner on an ongoing basis, regardless of fluctuating business cycles within the industry. One example of this partnership is our many years of cooperation with Airbus regarding its financing of new aircraft deliveries. The customers of this European manufacturer, which has production facilities located in Hamburg, Toulouse and other cities, include airlines and leasing companies from all over the world.

Our commitment and our ability to evaluate and react appropriately to industry specific economic developments are targeted specifically towards meeting the needs of our customers.

Strengthening the infrastructure of ports and airports in shipping and aviation, as well as public infrastructure, is a core responsibility for KfW IPEX-Bank.

Another example of the infrastructure activities of KfW IPEX-Bank is Railpool GmbH, the joint venture established in 2008 with HSH Nordbank. Within a short period of time, this lessor of rail vehicles has established itself in the market, and now makes an important contribution to fulfilling the growing need for rail vehicles in Europe that has resulted from the liberalisation of the railway industry. In 2010, Railpool expanded its vehicle pool to 100 locomotives that should be in service by the middle of 2013. The total investment volume is approximately EUR 525 million.

"The investment and financing from KfW IPEX-Bank enabled our company to expand its business and to position itself as an innovative service provider in the rail traffic industry that can offer its customers a full range of services including maintenance and fleet management."

Dr Walter Breinl, Managing Director of Railpool GmbH

RELIABLE PARTNER FOR RAW MATERIALS SUPPLIES

KfW IPEX-Bank makes a vital contribution to securing the supply of raw materials and thus the viability of the German and European economies. As a centre for industry, and with a high percentage of mechanised production, Germany is especially dependent upon secure external sources because of its own limited amount of domestic natural resources. We are almost completely dependent on imports, especially for metal-containing ore and industrial minerals. Also, energy sources such as gas, oil and coal must be imported from abroad in great quantities. Almost 30 million jobs in the European Union are dependent upon industrial raw materials – representing approximately 14 per cent of total employment.

KfW IPEX-Bank finances projects all over the world to secure the supply of raw materials for the domestic economy – either by itself or in partnership with KfW Entwicklungsbank or the Deutsche Investitions- und Entwicklungsgesellschaft (DEG). Our involvement extends over the entire value chain, from extraction right through to the processing of industrial raw materials. It is particularly in the cyclical business of raw materials that we are able to benefit from our long-standing and reliable partnerships and from our in-depth and comprehensive understanding of the markets and market trends in many countries worldwide.

Examples of projects that we structure include mines, gas and oil fields, and advance financing for commodity purchases. We provide loans to steel producers and traders, and finance the export of entire production facilities or the leasing of equipment. In the petroleum industry, we focus on financing for refineries and facilities for the production of basic chemicals and fertilisers.

Environmental and social considerations play an important role in the development and exploitation of raw materials. As a financing partner for customers in basic industries, we take our responsibilities seriously and examine all pending financings early on for their compatibility with environmental protection concerns and the rights of local people. In this regard, our experience shows that a significant amount of sensitivity is needed, particularly in developing countries.

INTERNATIONAL AWARDS FOR PROJECT FINANCING

The Nord Stream Pipeline is the "European Midstream Gas Infrastructure Project of 2010." Such was the decision of the renowned magazine Project Finance, which awarded the consortium established for the planning, construction and eventual operation of the natural gas pipeline from Russia under the Baltic Sea with the coveted "Deal of the Year" award for the financing of this project. Nord Stream is an important building block in securing the supply of raw materials to Europe and Germany. The pipeline will eventually cover about 25 per cent of the additional gas import requirements of the European Union.

The decision criteria for the award were innovation, risk reduction, cost effectiveness and speed of financing. EUR 3.9 billion was already raised in the spring of 2010 for the first funding phase of the project, despite the difficult conditions that existed on the capital markets at that time.

Besides Nord Stream, eight other KfW IPEX-Bank projects received "Deal of the Year" awards, including the offshore wind park "Thornton Bank" near the Belgian coast. Once the third and final stage of this project is put into production in 2013, the wind park will be able to supply electricity to over half a million people, equivalent to approximately 5 per cent of the Belgian population. At the same time, the previous annual carbon dioxide emissions will be reduced by an amount equal to the planting of a 90,000 hectare area of forest, corresponding approximately to the size of the Greater Berlin area.

BUSINESS DEVELOPMENT

Strengthened market position in export and project financing

KfW IPEX-Bank is responsible for international export and project financing within the KfW Bankengruppe. With almost 60 years of experience, KfW IPEX-Bank is the original export bank and, at the same time, a modern financial services provider. In order to adapt its market position to the constantly changing demands of its customers and the market, KfW IPEX-Bank refined its profile further in 2010. It will focus its market position as a specialist financier for the German and European economies on those areas where its special strengths lie.

The goal of KfW IPEX-Bank is to expand its presence in strategic markets and, as a motor for the export economy, to satisfy both the promotional mandate of KfW and the demands placed on a commercial bank.

Its focus is the provision of medium and long-term financing to support the export economy, the development of economic and public infrastructures, the provision of environmental and climate financing, and the security of Germany's raw materials supplies.

Improved environment for medium and long-term financing

2010 was characterised by an unexpectedly quick recovery in the financial markets and in the real economies of many countries. Asian emerging markets were the primary global growth drivers. In Europe, Germany assumed the role as the region's economic engine.

The increase in export and infrastructure projects resulting from the global economic recovery led to a substantial recovery in the demand for medium and long-term financing, the core product of KfW IPEX-Bank. However, the supply situation for financing from national and European commercial banks has not yet completely returned to normal. The reason for this is primarily the balance sheet adjustments required as a result of the declining creditworthiness of loan portfolios in the wake of the financial crisis. Furthermore, the banks appeared reluctant to grant new loans in view of the increased capital requirements required by the Basel III accord. As a result, strong competition generally continued to exist amongst the banks for low risk, well-secured financing structures.

High new commitment volumes from increased demand for credit

New commitments in Export and Project Financing grew slightly in 2010 over the prior year to EUR 9.3 billion (2009: EUR 8.9 billion). This volume consists of EUR 8.3 billion of new commitments from the original lending business and an additional EUR 1.1 billion of bank refinancing from the Ship-CIRR (Commercial Interest Reference Rate), a mandatary business for the German Federal Government.

Last year, despite the economic recovery, larger investment projects in particular were still subject to generally harsh scrutiny regarding their profitability and ability to service the loan. For that reason, support for existing commitments was a high priority, as in 2009. Based upon its long-term approach to its business, KfW IPEX-Bank was able, together with its customers, to develop viable solutions for problems from critical commitments. In view of the recovery in the credit cycle that has been observed since the fourth quarter, the bank expects that the level of its activities to support the existing credit portfolio will decline further in 2011.

Positive contribution to results by all business sectors

As a specialist financier for the German and European economies, the special strength of KfW IPEX-Bank is its support for German and European exports – in 2010, approximately two thirds of our new commitments were attributable to this line of business. Additionally, we finance means of transport, infrastructure projects, investments in the area of global environmental and climate protection, and the security of raw materials supplies.

All business sectors of KfW IPEX-Bank made a positive contribution to our results in 2010. Regarding financing volumes, the business sectors Transportation and Infrastructure as well as Energy and Environment made particularly strong contributions, making up 39 per cent and 21 per cent of the total results respectively.

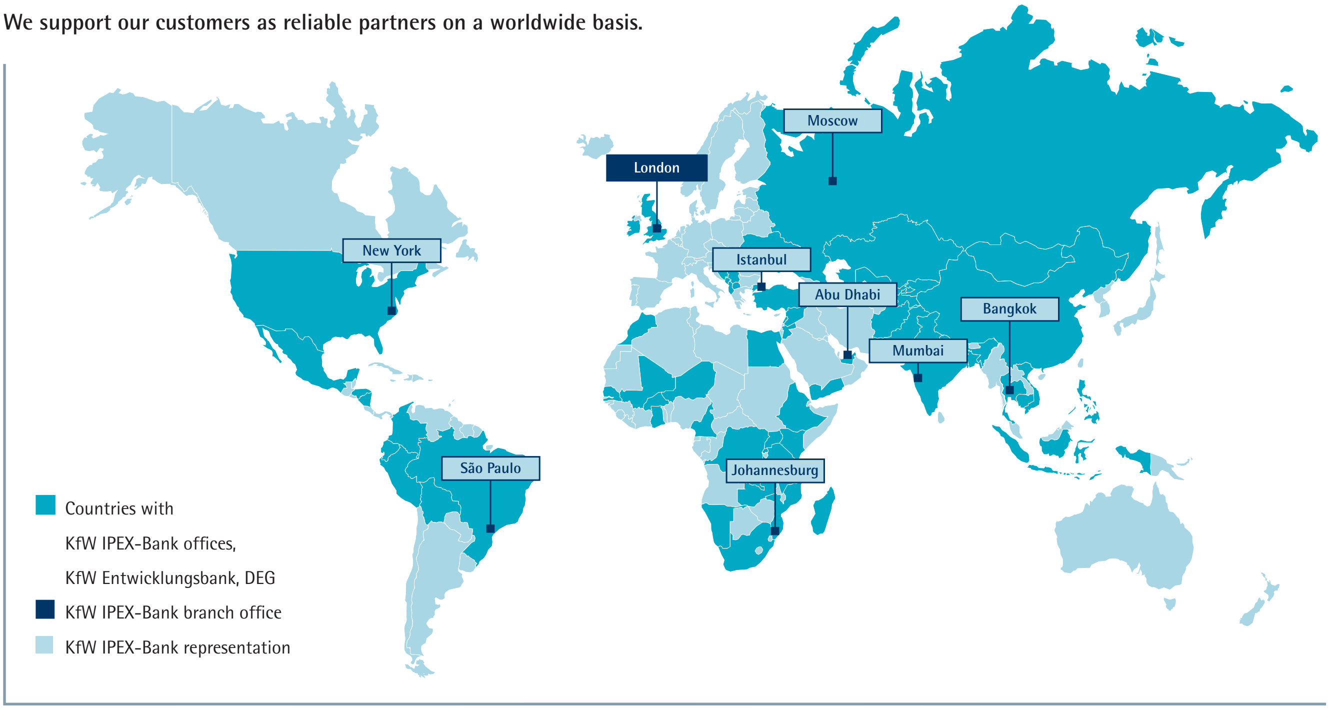
Worldwide presence in target markets

Export and project financing is part of the promotional mandate of KfW and thus a central element of the international business of the overall banking group. We accompany our customers and their projects on a worldwide basis – whether in industrial, industrialising, or developing countries. For this reason, we have developed our own network of overseas offices in recent years in the key economic and financial centres of the growth regions important to the German and European economies.

KfW IPEX-Bank currently maintains offices in Abu Dhabi, Bangkok, Istanbul, Johannesburg, Moscow, Mumbai, New York and São Paulo, and has a branch office in London. In addition, the bank can draw on expertise from approximately 60 offices of the KfW Entwicklungsbank and the Deutsche Investitions- und Entwicklungsgesellschaft (DEG) in developing and emerging countries. Therefore, based upon its comprehensive understanding of regional markets and its structuring expertise with complex export and investment projects, KfW IPEX-Bank is also active specifically in markets where access to financing is often difficult.

In 2010, 31 % (EUR 2.6 billion) of our new commitments were in Germany, 37 % (EUR 3.0 billion) were in the rest of Europe, and 33 % (EUR 2.7 billion), one third in total, outside Europe. Approximately 24 % of the new commitment volume was derived from transactions in those markets that are becoming increasingly important for the German and European export economies, the emerging markets, thereby confirming their status as crisis resistant and economic growth drivers. As we accompany our customers into these emerging markets, the share of new commitments derived from transactions outside of Europe will grow even further.

We support our customers as reliable partners on a worldwide basis.



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

Good financial results from KfW IPEX-Bank GmbH. The KfW International Project and Export Finance business area made an extraordinarily strong contribution to overall group earnings.

Operational success and strong contribution to the overall group

The year 2010 was characterised by the aftermath of the financial crisis as well as by the onset of the economic recovery, particularly in the second half of the year. With its focus directed towards its core competencies as a project and export financier, KfW IPEX-Bank was able to decisively use the opportunities that arose from this recovery.

The success in 2010 is also reflected, therefore, in the financial results of KfW IPEX-Bank for the business area in KfW for which it is responsible: in addition to very positive operational success, an above average contribution to the consolidated earnings of KfW could be achieved.

New commitments grew compared to the previous year, and the expense for risk provisions declined considerably because of the risk structure in the loan portfolio. We anticipate that the increasing competition and margin pressure in project and export financing, phenomena which are emerging in parallel with the economic recovery, will intensify.

The independently reporting entity KfW IPEX-Bank GmbH posted an after-tax profit for the financial year of EUR 145 million. The business area Export and Project Finannce was able to contribute EUR 889 million to the group's earnings, an outstanding contribution when compared to prior years' results. In summary, these results confirm the business area as a significant contributor to the income of the banking group.

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 benefited from two factors: first, from careful management of its loan portfolio based upon industry know-how, and second, from last year's economic recovery, which is evident from the substantial reduction of the expense for risk provisioning.

ACHIEVING A WORK-LIFE BALANCE

Back in 2001 KfW was certified by the Hertie Foundation as a family friendly company, one of the first companies in Germany to earn this recognition. In 2010, this award was reviewed for the third time using demanding criteria – for the first time in a joint project between KfW and KfW IPEX-Bank. The confirmation of this certification is proof that both KfW and its subsidiary KfW IPEX-Bank have succeeded, even in such work intensive times as the financial and economic crisis, in meeting the high standards of the Hertie Foundation.

During the review an employee survey was conducted on work-life balance. Almost half of the bank's employees participated in the survey, meaning that it was possible to gain a representative view of the situation from its results. On the whole, the results were positive. Even though the strains of recent years were clearly evident in the survey's results, they still confirmed that the bank has an above average family-friendly culture and attitude compared to other companies. Such an environment is supported by the leaders of KfW IPEX-Bank and enjoyed by all staff, even though it is often more difficult to maintain the right balance between work and family in times with heavy workloads such as recently.

KfW IPEX-Bank works in close cooperation with KfW to support its employees in achieving a work-life balance. Examples of this support include an extensive range of child care services, including our own day nursery and a company kindergarten.

Likewise, KfW IPEX-Bank places a high value on equality between men and women in its human resources policies. In 2010, KfW IPEX-Bank employed an almost equal number of men and women, as in previous years. A particular concern for the bank is to expand the percentage of women in management positions and to create the necessary conditions, often closely connected to work-life balance, to achieve this. One possibility, for example, is to fill management positions with a so-called management tandem, in which two female employees, or also male employees, share one management position.

Zertifikat seit 2004
audit beruf**und**familie®

Expansion of the graduate trainee programme

Ensuring a well organised start and training for our young employees is very important to us. Therefore, at the end of 2010 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 a targeted on and off-the-job training, in which they learn the various tasks, projects, and loan processes of the bank.

Fairness for students and graduates

Furthermore, KfW IPEX-Bank has joined the "Fair Company" initiative of the *Junge Karriere* magazine from *Handelsblatt*, the trade journal. We make sure that university graduates and interns are treated fairly.

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 the members of the works council and the representatives of our disabled employees. We would also like to offer our thanks to all of our employees, whose great commitment and engagement have contributed to the success of our bank.

Equality between men and women, as well as the achievement of a work-life balance, are high priorities for the human resource policies of KfW IPEX-Bank.

Key personnel figures

Employees (excluding trainees, excluding Managing Directors)	526
Part-time employees	approx. 11 %
Average age	39.0 years
Percentage of female employees	46 %
Percentage of male employees	54 %
Women in management positions	approx. 20 %
Percentage of severely disabled employees	1.1 %

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 Federal Government (PCGC) for KfW IPEX-Bank GmbH. Therefore, beginning with the 2010 financial year, a declaration of compliance is provided regarding the bank's compliance with the recommendations of the PCGC. Any potential deviations are disclosed and explained.

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 Management Board) 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 Management Board. 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: "The recommendations of the Public Corporate Governance Code of the Federal Republic, as adopted by the Federal Government on 1 July 2009, were 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 PCGC. 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 PCGC. 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.

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 members of the Management Board 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 Management Board, as well as the decisions of the shareholders' general meeting and the Board of Supervisory Directors.

During the reporting year, the members of the Management Board of KfW IPEX-Bank GmbH in 2010 had the following core responsibilities:

- **Mr Heinrich Heims** (until 12 August 2010)**:** Speaker of the Management Board and Director of Products & Corporate Affairs
- **Mr Michael Ebert:** Director of Finance & IT/Organisation and acting Director of Internal Auditing since 13 August 2010
- **Ms Christiane Laibach:** Director of Risk Management
- **Mr Christian K. Murach:** Director of Transportation Sectors & Treasury and acting Director of Coprporate Affairs since 13 August 2010
- **Mr Markus Scheer:** Director of Industry Sectors and acting Director of Products since 13 August 2010.

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 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 Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht* or *"BaFin"*) may not serve as a member of the Board of Supervisory Directors. The members proposed by the Federal Government should 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. Such a case occurred regarding the approval for an intercompany loan to a board member and was resolved by abstention in voting by the relevant member. No further such case occurred during the reporting period.

No 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 (*Kreditwesengesetz* or *"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 and Declaration of Compliance with the PCGC are published in the annual report; this is permanently available on the website of KfW IPEX-Bank GmbH.

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 quarterly risk reports to the Management Board; if necessary, the Management 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 15 September 2010, the shareholder of KfW IPEX-Bank GmbH appointed KPMG AG Wirtschaftsprüfungsgesellschaft as auditor of the financial statements for the 2010 financial year. Thereafter, the Board of Supervisory Directors issued the audit mandate to KPMG 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 2010 using a structured questionnaire. All six members participated in the efficiency review. The overall results of the survey are considered positive. Opportunities for improvement have been taken up by the Board of Supervisory Directors and the Management Board. All participants will 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 achievements and success of the bank.

The remuneration of the Management Board consists of a fixed, annual base salary, a fixed bonus and a variable, performance based bonus. Employment contracts concluded starting in 2010 no longer include a fixed bonus component. Such new contracts from 2010 onwards are in accordance with *KWG* Section 25 a Para. (5) in association with the German Compensation Regulation for Institutions *(Institutsvergütungsverordnung)*. 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 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.

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 when the new member and Speaker of the Management Board was appointed in October 2010.

The overview on page 32 presents the total compensation for the individual members of the Management Board, divided into fixed and variable compensation components, and benefits in kind, as well as additions to pension provisions.

Compensation for the Management Board and Board of Supervisory Directors

	2010	2009	Change
	EUR in thousands	EUR in thousands	EUR in thousands
Members of the Management Board	1,833.0	2,014.0	– 9.0 %
Members of the Board of Supervisory Directors	199.8	239.6	–16.6 %
Total	2,032.8	2,253.6	– 9.8 %

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

	Monetary income	Variable compensation	Benefits in kind	Total	Additions to pension provisions
	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands
Heinrich Heims (Speaker of the Management Board until 12 August 2010)	338	0	15	353	–132
Michael Ebert	395	0	26	421	149
Christiane Laibach	338	0	10	348	86
Christian K. Murach	338	0	16	354	167
Markus Scheer	338	0	19	357	86
Total	1,747	0	86	1,833	356

Benefits in kind primarily includes contractual fringe benefits. The members of the Management Board 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 reimbursed by the members of the Management Board to the bank 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.

Anniversary payments made during the financial year are included in other remuneration. Furthermore, other remuneration includes compensation received for the exercise of corporate mandates. Should the total compensation for mandates held by a member of the Management Board exceed EUR 25,000, then 50% of the amount that exceeds this limit must be paid over to KfW IPEX-Bank GmbH. For contracts of Management Board members negotiated from 2010 onwards, the members of the Management Board are personally entitled to the entire amount of the remuneration earned from corporate mandates.

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 member of the Management Board 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.

On the basis of a security concept, the costs of security measures for residential property occupied by members of the Management Board are assumed to a reasonable extent by the bank.

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 Management Board members during the 2010 financial year.

The members of the Management Board are entitled, like all other members of the bank's management, to participate in a deferred compensation, supplemental company pension plan through deferred compensation payments deducted from salary.

Benefits in kind are subject to payroll taxation by the members of the Management Board insofar as they are not tax allowable.

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

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. 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.

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.

Details regarding the remuneration of the Board of Supervisory Directors during the 2010 financial year are listed in the following table; 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.

Remuneration to the Board of Supervisory Directors for 2010 in EUR

Member	Mandate in 2010	Annual compensation	Attendance fees[1]	Total
		EUR	EUR	EUR
Dr Kloppenburg	1 Jan. – 31 Dec.	28,600.00	14,000.00	42,600.00
Dr Schröder	1 Jan. – 31 Dec.	22,000.00	5,000.00	27,000.00
State Secretary Dr Beus[2]	4 Mar. – 31 Dec.	18,334.00	12,000.00	30,334.00
State Secretary Mr Gatzer[2]	1 Jan. – 31 Jan.	1,834.00	0.00	1,834.00
State Secretary Dr Pfaffenbach[2]	1 Jan. – 31 Dec.	22,000.00	4,000.00	26,000.00
Dr Rupp	1 Jan. – 31 Dec.	22,000.00	14,000.00	36,000.00
Mr Stupperich	1 Jan. – 31 Dec.	22,000.00	14,000.00	36,000.00
Total		136,768.00	63,000.00	199,768.00

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

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 loans were made to members of the Board of Supervisory Directors during the reporting year.

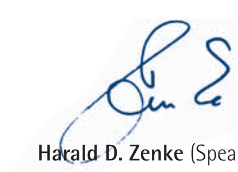
The members of the Board of Supervisory Directors are included in two insurance policies of KfW: first, the policy regarding the risks associated with their activities in the bank's governing bodies that covers their liability for monetary damages (D&O insurance) and second, the supplementary monetary 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 am Main, 23 March 2011

For the Board of Supervisory Directors

Dr Norbert Kloppenburg (Chairman)

For the Management Board



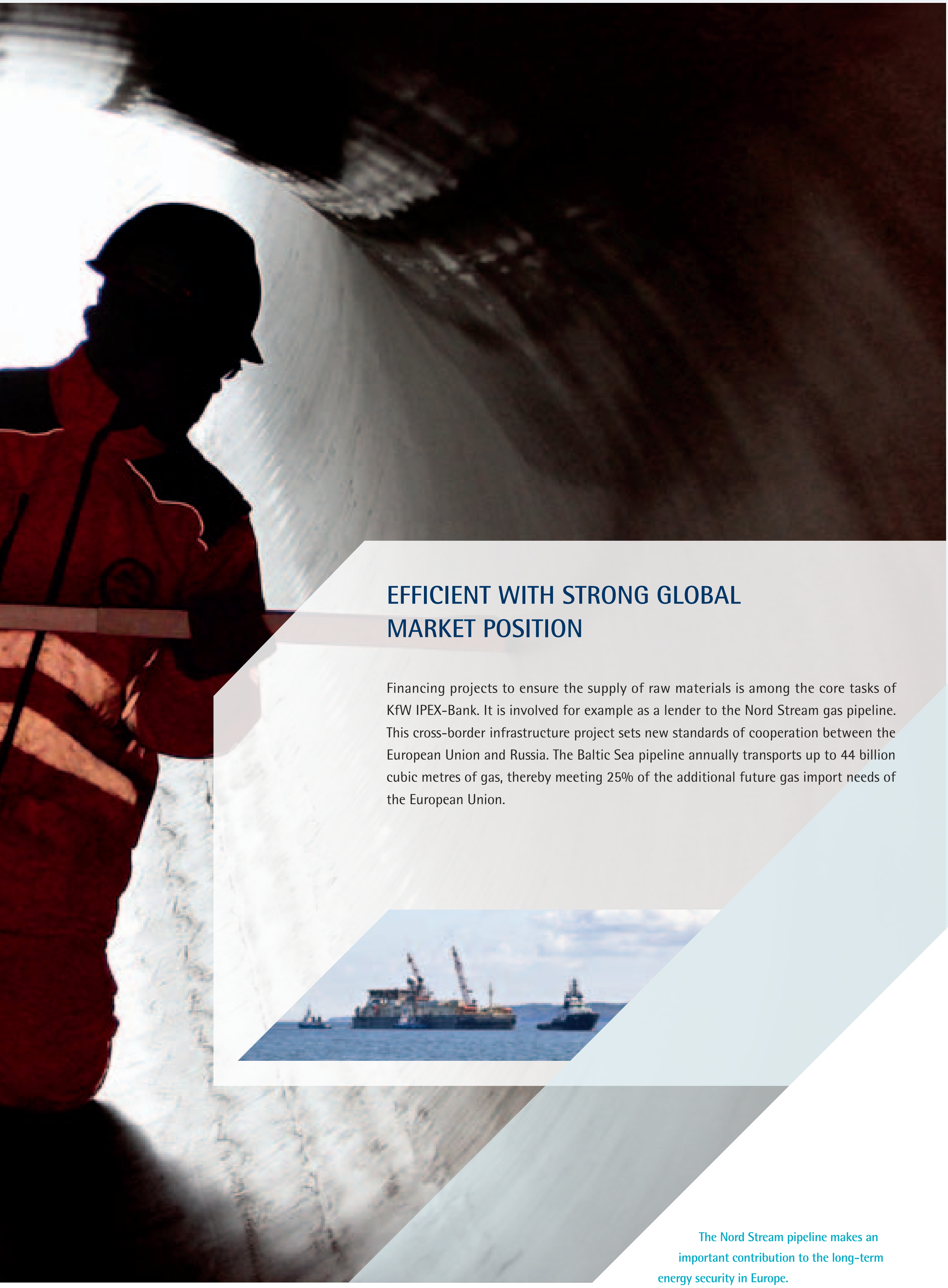
Harald D. Zenke (Speaker)

Michael Ebert

Christian K. Murach

Christiane Laibach

Markus Scheer



EFFICIENT WITH STRONG GLOBAL MARKET POSITION

Financing projects to ensure the supply of raw materials is among the core tasks of KfW IPEX-Bank. It is involved for example as a lender to the Nord Stream gas pipeline. This cross-border infrastructure project sets new standards of cooperation between the European Union and Russia. The Baltic Sea pipeline annually transports up to 44 billion cubic metres of gas, thereby meeting 25% of the additional future gas import needs of the European Union.

The Nord Stream pipeline makes an important contribution to the long-term energy security in Europe.

MANAGEMENT REPORT OF KFW IPEX-BANK GMBH

General economic conditions

The global economic recovery continued in 2010. The global economy was boosted by the continuation of very expansionary monetary policies, fiscal stimulus measures and catch-up effects in terms of stockbuilding in most countries. This resulted in a particularly strong economic upturn in the first half of the year. In the second half of the year, the global economy continued to grow, but at a more moderate pace.

Overall, global gross domestic product in 2010 rose by 5 % in real terms, following a contraction in 2009. The emerging Asian economies in particular proved to be engines for real economic growth in 2010; in many of these countries economic growth either matched or exceeded the pre-crisis level. Growth was very dynamic in China and India in particular, which recorded real GDP growth of more than 10 % and just under 10 %, respectively. Conversely, most developed economies continued to feel the structural aftershocks of the global financial crisis. In 2010, these economies were only partly able to offset the slowdown in growth prompted by the crisis. Within the euro area, regional growth differentials also became more marked, with the recession deepening in countries such as Greece and Ireland in contrast to the economic engine Germany.

In 2010, developments in the financial markets were overshadowed by growing concerns about the significant rise in budget deficits in the public sector as a result of the crisis. In particular, there was a sharp rise in expectations that a number of member countries of the euro zone would default. In the spring these expectations in the case of Greece reached a level that made support measures necessary. The resulting support package put together at the beginning of May and the newly installed euro safety net were not enough to calm the financial markets for long. In November, Ireland became the next member state in the euro zone to need assistance.

In real terms, the German economy recovered much more rapidly and strongly from the crisis-driven downturn than had been expected at the beginning of the year. In 2010 GDP grew by 3.6 % in real terms; this represented the highest average annual growth since reunification. The upturn was particularly impressive in international terms. Germany had entered the crisis with an economy that structurally was relatively sound and, because of its strong focus on exports, it only had to contend with what was essentially a very sharp but comparatively brief collapse in global demand. For the same reason, the country's upturn benefited from the global economic recovery. At the same time, German domestic demand, that is consumption and capital expenditure, revived significantly in 2010. Private consumption was boosted by the decline in the unemployment rate, which in Germany fell back below its pre-crisis level as early as the summer of 2010, the only major industrialised country to see this trend. The expanded short-time working regulations made a significant contribution to this trend in the employment market; through these regulations, the German government made it easier for companies to keep employees on payroll in spite of the often sharp, crisis-related sales decreases by reducing their cost burden. The improvement in the domestic sales outlook and the export recovery had an equally positive impact on companies' investment confidence. As utilisation of production capacity rose rapidly, gross capital expenditure made a substantial contribution to economic growth. As a result of the strong upturn, the public sector deficit grew much less strongly than feared at the beginning of 2010, although due to the impact of the 2010 economic programme, Germany's government deficit at 3.5 % of GDP was above the Maastricht benchmark level, as was that of virtually every other EU country.

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.

The number of export and infrastructure projects increased significantly during the economic upturn in 2010, culminating in an increase in demand for medium and long-term financing in the second half of the year. The total supply of funds available from national and European banks continued to be limited, however, and interbank competition for low-risk and well-secured financing structures remained high in general. 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. In addition, the bank actively focused on servicing existing customers, in order to help companies survive and retain jobs by restructuring commitments and securing liquidity for its customers in the medium term. In light of these general conditions, KfW IPEX-Bank proved to be a reliable financing partner for the German and European economy, with new primary loan business amounting to EUR 8.3 billion. This included promotional business totalling EUR 2.9 billion arranged on a trust basis for KfW. In addition to EUR 8.3 billion in new business, KfW IPEX-Bank provided bank refinancing under CIRR ship financing of around EUR 1.0 billion.

As a result of a KfW-wide strategic process, KfW IPEX-Bank fine-tuned its profile as a specialist bank in early 2010. With its task of promoting the competitiveness and globalisation of the German and European economy, the bank focuses on the provision of medium and long-term financing to support key industrial sectors of Germany's export economy, the development of the economic and social infrastructure, and environmental and climate change financing, as well as securing the supply of raw materials in Germany. Against this background, minor changes were also made to the internal organisation during the reporting year in order to fortify the Acquisition and Structuring department for the benefit of the bank's customers.

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. KfW IPEX-Bank continues to maintain a foreign branch in London, and the number of foreign offices also remained unchanged during the reporting year.

In spite of the ongoing turbulence in the financial markets during the reporting year, the liquidity of the bank was assured at all times, as the bank handles almost of all of its refinancing through KfW. Refinancing spreads moved in line with the trends seen at commercial banks with similar ratings. As an average for the year they were lower than in the previous year overall. However, they rose slightly during the summer in line with market movements resulting from the Greece crisis, before returning at the end of the year to the lower level seen at the beginning of the year. Refinancing costs, on the other hand, remained at an overall higher level than before the global economic and financial crisis.

Moody's rating of Aa3 was reconfirmed in 2010 and the Standard & Poor's rating remained at AA.

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

As at 31 December 2010, KfW IPEX-Bank had total assets of EUR 23.8 billion, which was EUR 1.9 billion less than in the previous year. The decline was largely caused by the planned disposal of securities held until maturity amounting to EUR 1.0 billion, a good portion of which were held in the liquidity reserve. In addition, loans and advances to banks fell by EUR 0.8 billion to EUR 0.6 billion. As a result of the liquidity line provided by KfW, it was possible to reduce short-term financial investments with KfW in order to comply with the German Liquidity Regulation *(Liquiditätsverordnung, LiqV),* in spite of the reduction in the securities portfolio. The sum of loans and advances to customers was virtually unchanged at EUR 21.0 billion.

The volume of business, which in addition to total assets comprised contingent liabilities and irrevocable loan commitments, dropped by EUR 3.1 billion. Irrevocable loan commitments fell by EUR 1.0 billion, and contingent liabilities from guarantees fell by EUR 0.2 billion.

The bank's regulatory capital totalled EUR 4.3 billion as of 31 December 2010. This resulted in an increase in the total capital ratio from 14.5 % to 17.3 % compared with the previous year. The tier 1 capital ratio rose to 10.3 %.

Net interest and commission income amounted to EUR 387 million, consisting of EUR 252 million in net interest income and EUR 135 million in net commission income. Administrative expense amounted to EUR 127 million, comprising personnel expense of EUR 64 million and other administrative expense including depreciation on property, plant and equipment of EUR 63 million. Operating income before risk provisions and valuations fell by EUR 71 million to EUR 250 million. This was primarily attributable to the effects of no interest being paid on the silent partner contribution and profit participation right (the total effect of which amounted to EUR 77 million) in 2009, and the payment in 2010 of interest on the profit participation capital (EUR 27 million) for 2009 that was not paid last year. Excluding these effects, net interest income including income from investments would have been EUR 40 million higher than the corresponding figure for last year.

As a result of the substantial stabilisation of the risk structure of the loan portfolio, KfW IPEX-Bank recorded generally moderate risk provision and valuation expenses of EUR 33 million during the financial year, which represented a significant reduction relative to the previous year (EUR 467 million). This figure was entirely due to risk provisions in the lending business, which amounted to EUR 453 million in the previous year. The valuations from securities and investments were balanced. Overall, all recognisable risks were covered by commensurate risk provisions.

Expenses from loss assumption amounting to EUR 29 million related to the replenishment of profit participation capital, which shared in the loss in 2009 due to a net annual loss. The extraordinary income and expenses of EUR 9 million was due solely to the amended valuation of the provisioning needs for current and future pension entitlements, owing to the implementation of the German Accounting Law Modernisation Act *(Bilanzrechtsmodernisierungsgesetz, BilMoG).*

In 2010, KfW IPEX-Bank recorded a profit from operating activities before taxes of EUR 179 million. After deduction of taxes totalling EUR 34 million, KfW IPEX-Bank recorded net income of EUR 145 million for the financial year. Following the absorption of the loss for the previous year of EUR 85 million and the replenishment of the silent partner contribution amounting to EUR 55 million, the bank recorded a balance sheet profit of EUR 4 million.

Development of net assets

Volume of lending for own account

The volume of lending (loans and advances including financial guarantees and irrevocable loan commitments) fell during the 2010 financial year by EUR 2.1 billion or 7 % to EUR 29.5 billion.

Loans for own account by business sector

Business Sector	31 Dec. 2009	Disbursements	Repayments	Other additions/ disposals[4]	31 Dec. 2010
	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions
Shipping	5,220	790	887	451	5,574
Aviation and Rail[1]	1,868	704	741	2,151	3,982
Power, Renewables and Water	2,574	719	464	70	2,899
Manufacturing Industries, Retail, Health	3,054	387	886	81	2,636
Basic Industries	2,556	206	768	161	2,155
Transport and Social Infrastructure[2]	1,228	196	216	716	1,924
Leveraged Finance, Mezzanine, Equity	841	210	196	– 13	842
Telecommunications and Media	1,121	74	435	25	785
Financial Institutions and Trade & Commodity Finance	149	314	100	15	378
Rail and Road[3]	2,598	0	0	– 2,598	0
	21,209	3,600	4,693	1,059	21,175
Interest receivable/ancillary claims	72	0	0	– 11	61
Other receivables	1,186	0	0	– 840	346
Loans and advances to banks and customers	**22,467**	**3,600**	**4,693**	**208**	**21,582**
Financial guarantees[5]	**2,308**	**182**	**449**	**64**	**2,105**
Irrevocable loan commitments[5]	**6,762**	**0**	**0**	**– 976**	**5,786**
Total	31,537	3,782	5,142	– 704	29,473

1) As at 31 Dec. 2009, previous business sector "Aviation", as at 31 Dec. 2010, additional business sector "Rail" from previous business sector "Rail and Road"
2) As at 31 Dec. 2009, previous business sector "Ports, Airports, Construction/PPP", as at 31 Dec. 2010, additional business sector "Road" from previous business sector "Rail and Road"
3) Business sector only as at 31 Dec. 2009, as at 31 Dec. 2010 divided between business sectors "Aviation and Rail" and "Transport and Social Infrastructure"
4) Within each business sector, additions and releases are netted out.
5) Refer to the Notes for a breakdown of the amounts by business sector.

The decline in the total volume of lending resulted from the reduction in irrevocable loan commitments and in other receivables. The latter specifically concern call money and term deposits at KfW (EUR 0.3 billion). The financial guarantees principally include performance guarantees amounting to EUR 1.3 billion as well as guaranteed credits amounting to EUR 0.8 billion.

The business sectors of Shipping, as well as Aviation and Rail, account for the major share of the total volume of lending.

Development of other major balance sheet assets

The portfolio of bonds and other fixed-income securities of KfW IPEX-Bank contracted by EUR 1.0 billion to EUR 2.0 billion in the 2010 financial year. This decline was due principally to the disposal of securities held until maturity. The majority of securities are held under fixed assets (EUR 1.9 billion), while securities amounting to EUR 0.1 billion are recorded under current assets.

Assets held in trust registered a decline of EUR 114 million to EUR 21 million. This item comprises loans administered for third parties by KfW IPEX-Bank on a trust basis. While they are legally owned by KfW IPEX-Bank, they are managed for the account of third parties, such that KfW IPEX-Bank does not have beneficial ownership of these assets.

The investment portfolio amounts to EUR 106 million and is EUR 14 million above the figure from 31 December 2009. This is principally the result of an increase in the capital shares of existing investments (in particular, Railpool Holding GmbH & Co. KG).

In addition to the investments in Sentient Global Resources Fund II LP (EUR 20 million) and Sentient Global Resources Fund III LP (EUR 20 million), the majority (72 %) of the investment volume is accounted for by HOCHTIEF AirPort Capital GmbH & Co. KGaA (EUR 19 million) and Railpool Holding GmbH & Co. KG (EUR 17 million).

Development of financial position

Refinancing

Similarly as in the previous year, the refinancing of KfW IPEX-Bank is almost exclusively based on borrowing from KfW. Under a refinancing agreement, KfW provides KfW IPEX-Bank with funds at conditions in line with the market. The bank uses current money and capital market products as refinancing instruments. Refinancing funds are obtained in the currencies and for the terms as required by the bank's customers.

On account of the lower refinancing volume, liabilities to banks dropped by EUR 2.3 billion (11 %) to EUR 18.6 billion in the financial year. This included promissory note loans falling by EUR 2.0 billion to EUR 13.5 billion and the volume of call money and term money borrowing dropping by EUR 0.4 billion to EUR 4.8 billion. Medium to long-term promissory note loans remain the most important sources of refinancing. Funds are principally borrowed in euros and US dollars.

By contrast, liabilities to customers increased by EUR 34 million to EUR 311 million. This includes EUR 137 million in short-term deposits from customers, which represents growth of EUR 14 million over the previous year.

Structure and development of refinancing

	31 Dec. 2009	Borrowings	Repayments	Other additions/ disposals, price changes and pro rata/due interest	31 Dec. 2010
	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions
Liabilities to banks					
Current account (KfW)	3	0	0	21	24
Call money and term money borrowing (KfW)	5,247	38,321	39,076	356	4,848
Promissory note loans and other long-term borrowing (KfW)	15,523	487	2,962	490	13,538
Interest payable (KfW)	101	0	0	21	122
KfW total	**20,874**	**38,808**	**42,038**	**888**	**18,532**
Other	5	35	0	– 4	36
	20,879	38,843	42,038	884	18,568
Liabilities to customers					
Other creditors [1)]	277	905	984	113	311
Total	21,156	39,748	43,022	997	18,879

[1)] *Includes liabilities from term money borrowing (EUR 137 million) and promissory note loans (EUR 88 million) to customers*

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

	31 Dec. 2010	31 Dec. 2009	Change
	EUR in millions	EUR in millions	EUR in millions
Equity	2,559	2,415	144
of which: subscribed capital	*2,100*	*2,045*	*55*
of which: capital reserve	*450*	*450*	*0*
of which: retained earnings	*5*	*5*	*0*
of which: balance sheet profit/loss	*4*	*– 85*	*89*
Profit participation capital	487	424	63
Subordinated liabilities	1,302	1,208	94
Fund for general banking risks in accordance with Section 340 g of the *HGB*	150	150	0
Total	4,498	4,197	301

During the financial year, subscribed capital rose by EUR 55 million to EUR 2,100 million. The reason for the increase was that the silent partner contribution within the subscribed capital was replenished during the current financial year, having absorbed some of the loss in 2009 due to the net annual loss. There is no contractual maturity date for the silent partner contribution.

The capital reserve of EUR 450 million and the retained earnings of EUR 5 million remain unchanged. The balance sheet profit for the 2010 financial year amounts to EUR 4 million.

The profit participation capital granted by KfW Beteiligungsholding GmbH amounts to USD 650 million (EUR 487 million). Having absorbed some of the loss in 2009 due to the net annual loss, it was fully replenished in accordance with contractual provisions during the 2010 financial year.

The total portfolio of subordinated loans remained unchanged at USD 1,740 million. The entry in the balance sheet increased by EUR 94 million to EUR 1,302 million on account of exchange-rate movements.

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

Development of other material items of liabilities

Provisions rose by EUR 87 million on the previous year, reaching EUR 275 million. The increase was mainly the result of net additions to provisions for the lending business amounting to EUR 36 million, which total EUR 152 million as of 31 December 2010. Over and above this, provisions for pensions and similar commitments were increased by EUR 16 million to EUR 64 million. There were also provisions for taxes amounting to EUR 35 million (EUR +29 million) and provisions for unsettled payments in kind and payroll expenses totalling EUR 24 million.

Off-balance sheet financial instruments

The volume of derivative transactions undertaken to hedge interest and exchange rate risks rose by EUR 1.2 billion to EUR 9.1 billion in the 2010 financial year. As contracts with interest rate risks, interest rate swaps at EUR 8.6 billion represent the largest component (95 %) in the total volume of off-balance sheet financial instruments. Furthermore, KfW IPEX-Bank uses cross-currency swaps (EUR 0.2 billion), FX swaps (EUR 0.3 billion) and forward exchange deals to manage market price risks.

Earnings position

	1 Jan. – 31 Dec. 2010	1 Jan. – 31 Dec. 2009	Change	
	EUR in millions[1]	EUR in millions	EUR in millions	%
Interest income[2]	708	813	– 105	– 13
Interest expense	– 456	– 496	– 40	– 8
Net interest income	**252**	**317**	**– 65**	**– 21**
Net commission income	135	124	11	9
Net trading result	0	– 2	2	100
General administrative expense	– 127	– 119	8	7
Other operating income and expenses	– 10	1	– 11	– 1,100
Operating income before risk provisions/valuations	250	321	– 71	– 22
Valuations from securities and investments	0	– 14	– 14	– 100
Risk provisioning result in lending business	– 33	– 453	– 420	– 93
Risk provisions and valuations, total	**– 33**	**– 467**	**– 434**	**– 93**
Operating income before taxes	**217**	**– 146**	**363**	**249**
Expenses from loss absorption	– 29	0	29	–
Extraordinary income/expenses	– 9	0	– 9	–
Profit/loss from operating activities before taxes	**179**	**– 146**	**325**	**223**
Taxes on income	– 34	– 21	13	62
Income from loss absorption	0	27	– 27	– 100
Net income/net loss for the year	145	– 140	285	204
Loss carried forward	– 85	0	85	–
Allocated from silent partner contribution	0	55	– 55	– 100
Replenishment of silent partner contribution	– 55	0	55	–
Balance sheet profit/loss	4	– 85	89	105

[1] *For mathematical reasons there may be rounding differences of +/- one unit in the table.*
[2] *Total of interest income on lending and money market transactions, fixed-income securities and debt register claims and current income from shares and investments*

The most important source of income continued to be net interest income, which contributed EUR 252 million to net income. 91 % or EUR 648 million of the interest income resulted from credit and money market transactions, 5 % or EUR 36 million resulted from securities and 4 % or EUR 24 million resulted from current income from shares and investments. Interest expenses amount to EUR 456 million and were mainly ascribed to accepted promissory note loans as well as money market transactions totalling EUR 216 million. Interest expenses include profit participation capital amounting to EUR 60 million, payment of interest on the silent partner contribution amounting to EUR 33 million and subordinated liabilities amounting to EUR 21 million. The interest on the profit participation capital that was not paid in 2009 was paid in the 2010 financial year.

Net commission income amounts to EUR 135 million and includes in particular the net result from processing fees in lending activities (EUR 117 million) and guarantee commissions (EUR 19 million).

Administrative expense amounts to EUR 127 million. This includes personnel expense at EUR 64 million which accounts for 50 % of total expenses. Non-personnel expense, including write-downs on plant and equipment, amounts to EUR 63 million and mainly includes expenses for services at EUR 28 million, office operating costs at EUR 17 million and occupancy costs at EUR 9 million. A major portion of non-personnel expense amounting to EUR 44 million relates to services with KfW.

Risk provisions and valuation

The risk provisions and valuation result is principally composed of write-downs and impairment on receivables as well as additions to provisions for the lending business. In terms of risk provisions for the lending business, KfW IPEX-Bank always differentiates between specific loan loss provisions and portfolio loan loss provisions.

Portfolio loan loss provisions are calculated using an expected loss concept, whereby the risk provisions for all loans without specific loan loss provisions are based on the expected loss within one year. In the previous year, due to the bank's risk assessment, additional portfolio loan loss provisions were recognised (especially in the Shipping sector), which were partly reversed in 2010 as a result of the stabilisation of the risk position.

The total risk provisions and valuation result for the financial year was EUR –33 million, which was entirely for risk provisions for the lending business.

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

Summary

Adjusted for exceptional interest effects, the bank recorded very healthy operating income before risk provisions. As a result of the significant stabilisation of the risk position of the loan portfolio, the risk provisions requirement was very moderate.

The very good results recorded in 2010 meant that the loss sharing and the interest outstanding on the hybrid capital for 2009 were repaid in full, the current interest for 2010 was serviced and the balance sheet loss from the previous year amounting to EUR 85 million was offset. Overall, results were therefore much higher than forecast and budgeted for 2010.

Administrative expense

	2010	2009	Change
	EUR in millions	EUR in millions	EUR in millions
Wages and salaries	53	49	4
Social security contributions	6	5	1
Expense for pension provision and other employee benefits	5	2	3
Personnel expense	64	56	8
Other administrative expense	63	63	0
Non-personnel expense	63	63	0
Administrative expense	127	119	8

SUBSEQUENT EVENTS

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

SUSTAINABILITY

Review of environmental and social impacts of core business

KfW IPEX-Bank is fully committed to fulfilling its responsibility to society. The environmental and social acceptability of all projects to be financed is examined in advance. Since 2008, the bank has been a member of the Equator Principles Financial Institutions group. Since as early as 2000 it has had its own demanding environmental and social guidelines with clear rules and procedures for its operating business. These are continually revised in line with international discussions on corporate social responsibility. The strict Environmental and Social Guidelines of KfW IPEX-Bank transcend the requirements of the Equator Principles and apply not only for project finance but also for all other types of finance by the bank. KfW IPEX-Bank is involved in the activities of the Equator banks as part of a "community of learning".

All loan applications are assigned to one of three categories based on the environmental and social aspects of the projects to be financed: categories A and B represent projects that could have significant impacts on the environment and social structure of the country. Yet since these impacts are often technically manageable, projects in these categories are vetted closely with the collaboration of KfW technical experts. In these cases KfW IPEX-Bank only grants the relevant finance if the internationally accepted environmental and social standards of the World Bank Group are adhered to, if necessary with additional requirements. The exceptions of this rule are projects which are to be implemented in an EU country or in another OECD country with established environmental protection legislation and practices as well as a stable social order. Seven projects fell into category A and 10 projects were assigned to category B. In 2010 these were predominantly raw material projects and energy projects, such as thermal power plants. In the non-critical category C, where no special review is necessary, there were 49 projects. These mainly related to financings of aircraft, ships, railway vehicles and telecommunication facilities, as well as products from the capital goods industries that meet all of the German or European Union standards. Of the total commitments for 2010, loans totalling more than EUR 1.2 billion were allocated for environmental and climate protection investment. Compared to the previous year, this was an increase of over 12 % and underlines the bank's dedication and commitment to making a contribution to improving ecological living conditions.

KfW IPEX-Bank is a commercial bank and does not provide retail banking or asset management services for third parties. It only has a very limited amount of securities for liquidity purposes.

In-house environmental protection

KfW IPEX-Bank fulfils its responsibility for environmental protection in relation to its own business activities too. Ambitious goals are developed and monitored as part of the sustainability management of KfW Bankengruppe. KfW Bankengruppe documents this work centrally – for KfW IPEX-Bank too – in its Sustainability Report. With its move to the new West Arcade building at the headquarters of the KfW Bankengruppe in May 2010, KfW IPEX-Bank has set new standards in many respects. The building is currently one of the most energy-efficient office buildings in the world, setting a new benchmark with primary energy consumption of 98 kWh/m² per year. Since as early as 2006, the remaining emissions resulting from the operation of its offices and business trips of KfW have been rendered CO_2-neutral through the retirement of emission certificates. Since becoming legally independent in 2008, KfW IPEX-Bank has continued this practice.

Human resources policy moving forward

KfW IPEX-Bank requires well-trained and motivated employees who impress our customers with their expertise, service-minded approach and professionalism. Important building blocks of the bank's HR policy include a success-based, performance-oriented remuneration system, a balance between professional and private life, such as with part-time work, and a variety of professional and health-care benefits. Relevant indicators improved slightly in 2010. The share of employees working part-time increased somewhat compared to the previous year and totalled around 11 %. The share of female staff increased from 46 % to 48 %, and the proportion of women in management also rose again, from 20 % to 21 %.

RISK REPORT

General conditions of risk management and controlling

The core of the business model adopted by KfW IPEX-Bank is to undertake credit risks in a deliberate and controlled fashion with the objective of generating adequate revenues. In the pursuit of these objectives it must ensure it has the capacity to bear these risks at any time. Professional and responsible risk management, and its integration into the integrated risk-return management of the bank represent a significant success factor for the bank. All significant components of the integrated system for risk-adjusted return management at the bank undergo continuous expansion and further development.

We understand risk to mean the threat of unfavourable future developments which could have a sustained negative effect on the net assets, financial position and results of operations of the bank.
In the 2010 financial year,

- counterparty risks
- market 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, taking account of the strategy's compatibility with the general risk policy conditions of KfW Bankengruppe applicable to the Group as a whole.

The risk strategy is consistent with the business strategy according to the provisions of the Minimum Requirements for Risk Management (MaRisk), and takes account of all business units and risk types that are of significance to the bank. For liquidity risk, a risk measure that is suitable for KfW IPEX-Bank has been developed. In 2011, this is to be followed by specifying strategic guidelines to be converted into a partial risk strategy for liquidity risk.

The nature and extent of risk-taking as well as the way the risks are dealt with are derived from our business model, the main aspects of which are defined in the business strategy. The most important risk types for KfW IPEX-Bank in this context are counterparty risks followed by market 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 central guiding principle for the risk strategy is to maintain the 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 evaluating the risks in the portfolio and identifying measures to mitigate risks. In addition, Risk Management approves ratings of new and existing project financing transactions. As a separate organisational unit under Risk Management, "Collateral Management" is responsible for the provision and valuation of all collateral, and it monitors the eligibility of collateral when determining risk indicators.

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

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

Risk Strategy, Methods and Instruments includes the organisational units of "Portfolio Management", "Price and Risk Instruments" as well as "Fundamental Issues and Methodology". The "Portfolio Management" unit manages the loan portfolio on the basis of risk/return considerations. The "Price and Risk Instruments" organisational unit updates the risk and price instruments used and tracks their ongoing development. The "Fundamental Issues and Methodology" unit is responsible for the reviewing of the methods used in the rating and pricing processes as well as the system of key risk indicators for counterparty default risk, and also for clarifying fundamental supervisory issues with regard to counterparty risk.

Risk Controlling is responsible for the methodology, measurement and monitoring of market risk and credit spread risk as well as for reporting to the Management Board about these risks. Risk Controlling also has responsibility for reporting on transactions with increased counterparty risks (watch list and report on non-performing loans) as well as cooperating with Portfolio Management to prepare the quarterly risk report. Risk Controlling is equally responsible for methods used to measure and monitor liquidity risk.

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

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

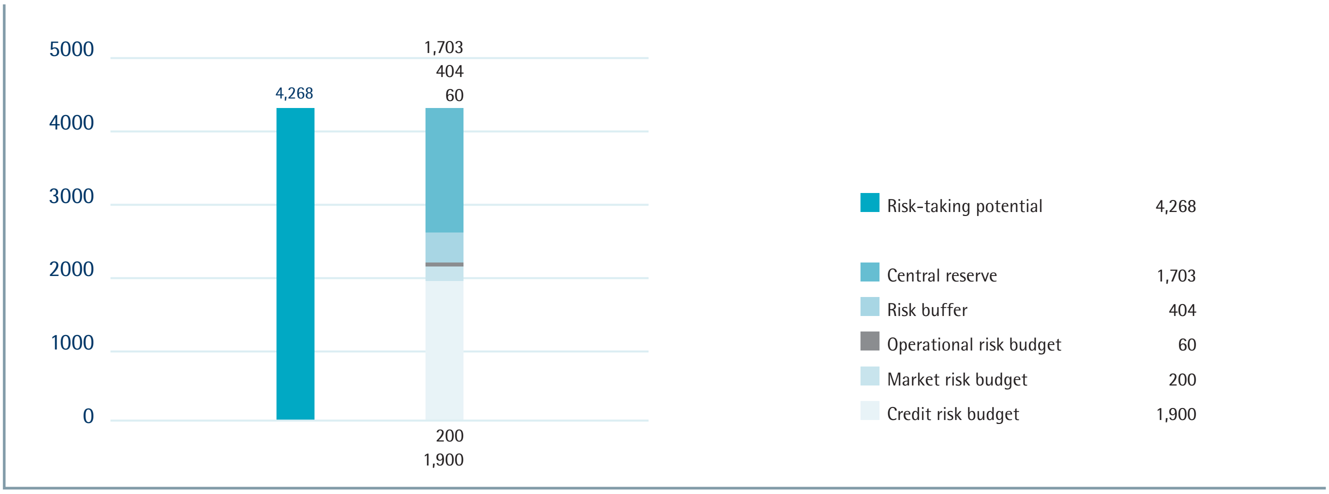
Risk-bearing capacity and regulatory capital adequacy

The risk-bearing capacity concept of KfW IPEX-Bank has been fundamentally revised and expanded. 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 the economic and regulatory risk-taking potential. Going forward, risk-taking potential (economic and regulatory) will be equal to 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)*, thereby establishing a standard group-wide definition of risk-taking potential.
2. The integration of a going-concern perspective to fulfil an early-warning function for the purpose of determining risk-bearing capacity.

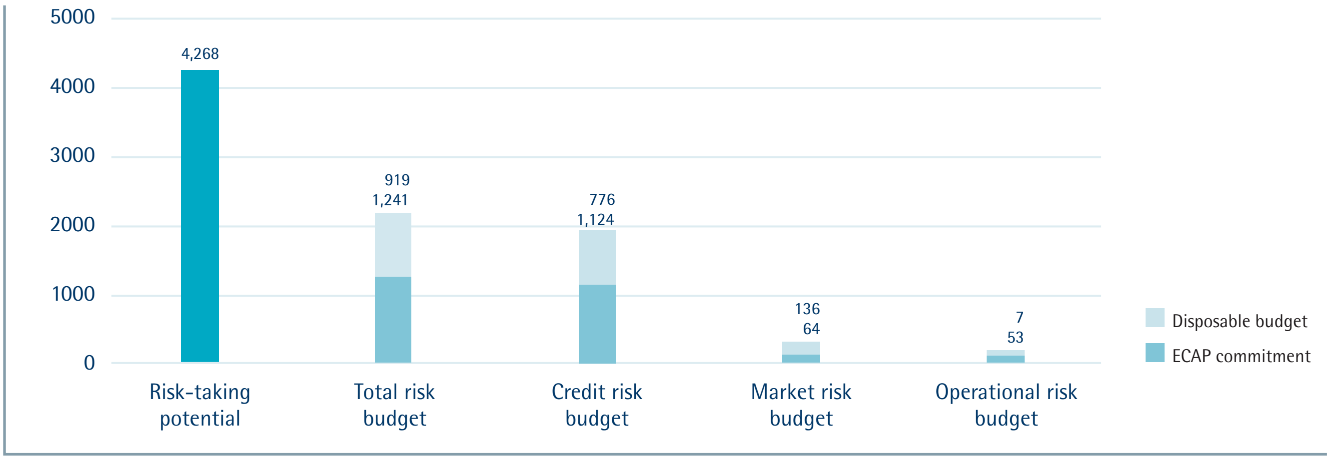
As of 31 December 2010, the risk-bearing capacity of KfW IPEX-Bank was as follows. The risk-taking potential of KfW IPEX-Bank was EUR 4,268 million. The Tier 2 capital was set aside as a central reserve for internal management purposes. A risk budget for entering into risks at an overall bank level was provided from the Tier 1 capital, with due consideration of a risk buffer. The total capital budget is divided between the counterparty, market risk and operational risk in accordance with the business strategy.

Risk-bearing capacity: Risk-taking potential and risk budget as at 31 December 2010 (Figures in EUR millions)



As demonstrated by the following overview, the risk budgets as at 31 December 2010 were not fully utilised. Of the entire risk-taking potential totalling EUR 4,268 million, the sum of EUR 1,241 million was accounted for by risk positions as at 31 December 2010. This means the utilisation of the risk-taking potential at the overall bank level amounts to 29 %.

Utilisation of risk budget as at 31 December 2010 (Figures in EUR millions)



The regulatory capital requirements must be taken into account as a strict additional condition for in-house risk management. As a newly founded bank, KfW IPEX-Bank has to maintain a higher total capital ratio of 12 % instead of 8 % during the first three financial years, and therefore for the last time in 2010, in accordance with the German Solvency Regulation (Solvabilitätsverordnung, SolvV), and we have implemented the necessary processes for this. The total capital ratio as at 31 December 2010 was 17.3 %.

Counterparty risks

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

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

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

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

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

Shareholder risk (investment risk)
Investment risk is understood by KfW IPEX-Bank to be the risk of financial loss arising from the provision of equity to third parties. Compared to credit risks, investment risks play a secondary role in KfW IPEX-Bank. Risks from strategic investments where there is an emphasis on company or business policy objectives are tracked separately as investment risk. Operative investments are still aggregated under credit risks given their "credit-like" character or nature as "credit substitutes".

Measurement of counterparty risk

Counterparty risk is valued at the level of the individual counterparty or the individual transaction, based on internal rating processes. In this case, the bank uses the advanced approach based on internal ratings 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)

[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.

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 processes are calibrated for a one-year probability of default. Both the ratings for new customers and the follow-on ratings for existing customers are defined by observing the principle of dual control in the 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 cluster risks as well as correlated overall risks. Limitations are based on the dimensions of borrower unit and country. The net exposure and economic capital variables are limited on the basis of a uniform upper loss limit.

Risk guidelines
In addition to the LMS, the credit portfolio is controlled by risk guidelines. For this purpose, Risk Management, together with Portfolio Management proposes specific guidelines based on the current risk situation and the business policy objective. These are approved by the 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
A possible additional ECAP requirement is calculated for certain scenarios as part of stress tests in order to be prepared for a significant increase in counterparty risks. The effects of diverse (extreme) events on the risk structure of the credit portfolio and the economic risk indicators can be examined in this way. Stress scenarios are modelled by changing the following risk parameters:

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

Active portfolio management

Taking the current market climate into account, active 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 KG, or Kommanditgesellschaft (the German equivalent of a limited partnership).

Counterparty risk committee

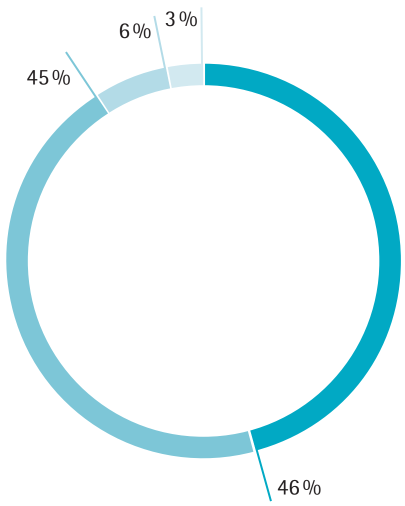
The counterparty risk committee that convenes every month chaired by the member of the Management Board in charge of risk control discusses alternatives for action with regard to yellow list, watch list and NPL cases and monitors their implementation. The Management Board of KfW IPEX-Bank may have to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

Structure of counterparty risk

Distribution of net exposure by rating class

Total net exposure: EUR 9.8 billion

	2010	2009
Investment grade (M1–M8)	46 %	47 %
Non-investment grade (M9–M15)	45 %	45 %
Watch list (M16–M18)	6 %	5 %
Non-performing loans (M19–M20)	3 %	3 %

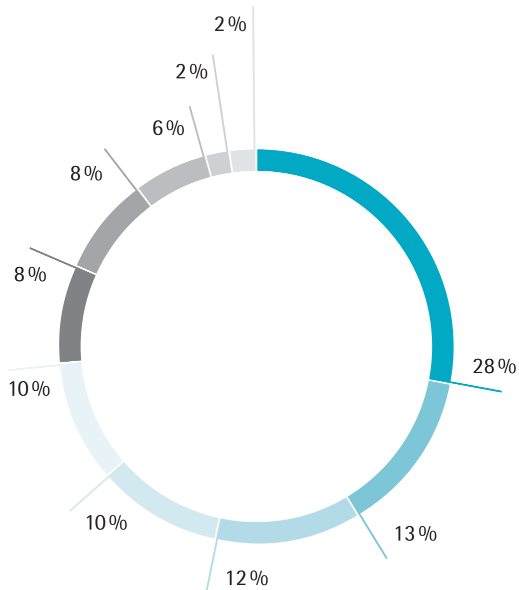


The creditworthiness structure in the portfolio remained stable compared to the previous year. The average probability of default in the 2010 financial year rose moderately from 1.37 % to 1.51 %. The total net exposure is EUR 9.8 billion. Rating classes M1-M8 make up 46 % of this. A further 45 % is in rating classes M9-M15. The proportion of watch list and NPL loans amounts to only 6 % and 3 % of the net exposure, respectively.

Distribution of economic capital by business sector[2)]

Total ECAP: EUR 1,124 million

	2010	2009
Shipping	28 %	25 %
Manufacturing Industries, Retail, Health	13 %	17 %
Leveraged Finance, Mezzanine, Equity	12 %	10 %
Basic Industries	10 %	12 %
Aviation and Rail	10 %	10 %
Power, Renewables and Water	8 %	7 %
Transport and Social Infrastructure	8 %	9 %
Telecommunications and Media	6 %	6 %
Liquidity Portfolio	2 %	3 %
Financial Institutions and Trade & Commodity Finance	2 %	1 %

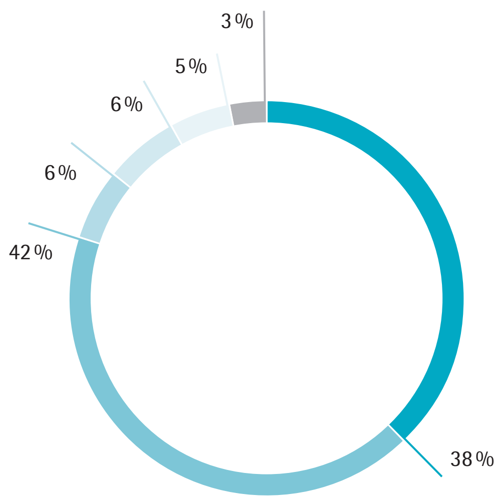


This overview reveals the diversification of the portfolio throughout individual business sectors. The largest economic capital commitment is found in the sectors of Shipping (28 %), Manufacturing Industries, Retail, Health (13 %) and Leveraged Finance, Mezzanine, Equity (12 %).

Distribution of economic capital by region

Total ECAP: EUR 1,124 million

	2010	2009
Germany	38 %	33 %
Rest of Europe	42 %	44 %
Asia	6 %	5 %
North America	6 %	5 %
Latin America	5 %	7 %
Africa	3 %	3 %
Australia and Oceania	0 %	2 %



Taking a regional perspective, business is focused on Europe, including Germany. This accounted for 80 % 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.

[2)] In 2010 the business sectors were partially restructured. In all of the charts in this report, the figures for 2010 are shown under the new structure, while the comparative figures for 2009 are shown under the old system.

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 were unchanged at EUR 383 million as at 31 December 2010, but there were significant changes in individual business sectors. Whereas the level for specific loan loss provisions for Shipping was increased through additions, the level for other business sectors dropped due to the release and utilisation of provisions through sale of non-performing commitments.

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 2010:

On principle, portfolio loan loss provisions as well as portfolio provisions (for financial guarantees and irrevocable loan commitments) are made for loans without specific loan loss provisions on the basis of an expected loss concept. Owing to the significant increase in risk in 2009, additional portfolio loan loss provisions had been recognised in the previous year, especially for the business sector Shipping. In the current year, some of these portfolio loan loss provisions were replaced with specific loan loss provisions.

Portfolio loan loss provisions as at 31 December 2010 by business sector were as follows:

Specific loan loss provisions

Business Sector	31 Dec. 2010	31 Dec. 2009	Change
	EUR in millions	EUR in millions	EUR in millions
Shipping	265	153	112
Manufacturing Industries, Retail, Health	47	70	– 23
Aviation and Rail[1]	21	1	20
Basic Industries	18	33	– 15
Telecommunications and Media	11	4	7
Transport and Social Infrastructure[2]	10	70	– 60
Power, Renewables and Water	7	7	0
Leveraged Finance, Mezzanine, Equity	4	4	0
Financial Institutions and Trade & Commodity Finance	0	14	– 14
Rail and Road[3]	0	27	– 27
Total	383	383	0

Portfolio loan loss provisions

Business Sector	31 Dec. 2010	31 Dec. 2009	Change
	EUR in millions	EUR in millions	EUR in millions
Shipping	125	171	– 46
Aviation and Rail[1]	26	34	– 8
Transport and Social Infrastructure[2]	21	18	3
Leveraged Finance, Mezzanine, Equity	20	13	7
Basic Industries	19	47	– 28
Manufacturing Industries, Retail, Health	14	43	– 29
Power, Renewables and Water	10	7	3
Telecommunications and Media	7	7	0
Financial Institutions and Trade & Commodity Finance	6	8	– 2
Rail and Road[3]	0	8	– 8
Total	248	356	– 108

1) As at 31 Dec. 2009, previous business sector "Aviation", as at 31 Dec. 2010, additional business sector "Rail" from previous business sector "Rail and Road"
2) As at 31 Dec. 2009, previous business sector "Ports, Airports, Construction/PPP", as at 31 Dec. 2010, additional business sector "Road" from previous business sector "Rail and Road"
3) Business sector only as at 31 Dec. 2009, as at 31 Dec. 2010 divided between business sectors "Aviation and Rail" and "Transport and Social Infrastructure"

No write-downs were necessary on long-term securities during the financial year (previous year: EUR 25 million).

Market risks

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

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

Interest rate risk and foreign exchange risk

As part of its market risk strategy, the Board of Management Directors of KfW IPEX-Bank has decided that interest rate risks are to be avoided in all cases and that active maturity transformation is not an option. Asset and liability positions in the loan book, including refinancing with a fixed interest rate of more than 12 months, are hedged on an individual transaction basis by interest rate swaps. In order to ensure consistent return on equity the only open interest position permitted is an equity investment portfolio with an unhedged fixed interest rate of more than 12 months.

The equity investment portfolio has been gradually built up since October 2010, with a maximum level equal to that of the equity as shown in the balance sheet. The only investments are in KfW bonds carrying a fixed coupon, which qualify for inclusion in the liquidity ratio. The target duration of the portfolio is roughly 2.5 years. Compliance with these instructions is monitored on a weekly basis by the Risk Controlling department. The risk of a present value loss is measured by means of the value-at-risk methodology.

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 with a confidence level of 99.96 %. The foreign exchange risk is calculated using a parametric VaR model, also with a confidence level of 99.96 %. Diversification effects between the interest rate and the foreign exchange 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 2010.

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
2,121	13	6

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

Credit spread risks in the liquidity portfolio

The liquidity portfolio controlled by the Treasury Department in order to maintain the liquidity ratio according to the German Liquidity Regulation *(Liquiditätsverordnung, LiqV)* had a volume of EUR 1,583 million as at 31 December 2010 and included 67 items.

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

Issuer	Nominal volume
	EUR in millions
Corporates	57
Financial institutions	814
Pfandbrief bonds	602
Foreign countries[1)]	110
	1,583

[1)] Poland EUR 50 million, Hungary EUR 40 million, Greece EUR 20 million

Owing to maturities in the portfolio, the portfolio volume experienced a sharp decline in 2010 (EUR -968 million compared to 2009). What is more, the average duration of the portfolio contracted further. The spread BPV[3)] of the portfolio at year end fell to less than EUR 3,600 (compared with EUR 4,500 in 2009).

For weekly reporting, the credit spread risk is measured with an assumed holding period of 10 days and at a confidence level of 99.96 %. The credit spread risk as per 31 December 2010 was EUR 5 million (compared with EUR 6 million as of 31 December 2009).

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

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

Liquidity risks

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

Solvency risk
This is the risk of not settling payment obligations at all, on time and/or not to the required extent. Here the bank also includes the risks that asset during a liquidity crisis can only be liquidated with high market price discounts (market liquidity risk).

The solvency risk of KfW IPEX-Bank is considerably limited by the existing refinancing commitment of KfW. The refinancing agreement guarantees KfW IPEX-Bank access to liquidity through KfW at any time. This means the 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 alone is responsible for measuring and controlling its own operative liquidity.

In addition to the refinancing agreement, KfW IPEX-Bank has a securities portfolio, a credit facility with KfW, and short-term money market investments with KfW in order to guarantee its ability to render payment at any time in accordance with Section 11 of the German Banking Act *(Gesetz über das Kreditwesen, KWG*) in conjunction with the German Liquidity Regulation *(Liquiditätsverordnung, LiqV)*.

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.

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. This risk includes in particular the risk arising from liquidity maturity transformation.

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 funding conditions on the liabilities side and, on the other, a deterioration in the refinancing contribution provided by the assets side. The liquidity return risk is gauged based upon the fluctuation in the LVW in scenarios relevant to the risk position of KfW IPEX-Bank.

Operational risks

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Reputation risks are chiefly based on operational risks, therefore they are included in the operational risk management process at KfW IPEX-Bank. 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 organisation of operational risk management and controlling is based on the following three core elements:

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

The operational risk strategy forms the framework for dealing with operational risks 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.

The most important instruments in operational risk management include risk assessment, the early-warning system and the operational risk event database. There is also continuous monitoring of compliance with the service level agreements (SLAs).

The annual risk assessment is a methodical and structured estimate of the key operational risks as part of which the risk profile of KfW IPEX-Bank is ascertained.

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 historisation of loss data.

In addition, operational risk is integrated into the risk-bearing capacity concept and in stress testing of all types of risk by KfW IPEX-Bank.

Shareholder risk (investment risk)

In addition to the operating investments included under credit risks, KfW IPEX-Bank is also currently involved in strategic investments, where the emphasis is on KfW IPEX-Bank's company or business policy objectives with respect to the commitment.

To ensure that risk controlling and management is effective, a distinction is made between material and non-material strategic investments. For the purpose of assessing risk-bearing capacity, strategic investment risks are included in the assessment, with an economic capital budget being allocated to the investment-risk category and its utilisation being monitored as part of risk reporting. Allowance is currently made for strategic investments on a blanket basis according to the potential for loss using the PD/LGD approach.

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 our risk strategy is implemented and complied with.

The bank's risk-bearing capacity was adequate at all times throughout the past financial year. Also, the regulatory requirements on equity capital and reserves were complied with throughout. In view of the stable risk position in 2010, risk provisions were moderate overall.

FORECAST REPORT

We expect the global economy to record heterogeneous growth again in 2011. The emerging Asian economies are again likely to deliver high growth rates. In contrast, the macroeconomic conditions in the industrialised economies continue to be difficult, not only in view of government finances. In many countries, structural changes are still at an early stage. In view of the difficult position of public sector finances, many countries will pursue a policy of fiscal consolidation, which will have the effect of curbing economic growth. Meanwhile, monetary policy in most of the industrialised economies will continue to be expansionary for some time, in order to cushion the impact of the crisis and to facilitate the refinancing of the banking sector. Overall, the global economy is likely to continue its upward trend in 2011, but the rate of growth is likely to be somewhat slower compared to the previous year. In particular the German export economy, along with the European export economy in general should benefit from this trend. This is likely to result in positive demand for medium and long-term financing, which is the core product of KfW IPEX-Bank.

Notwithstanding the positive signs of growth, there will be negative factors and risks. For example, the German and European economies, both export-oriented, will continue to be heavily dependent on global economic trends. The market environment could be negatively impacted by much more restrictive fiscal policies, disruption in the financial markets, which continue to be fragile, weak growth in the US economy, political unrest in the countries of North Africa and ongoing structural problems in the euro zone, which is the destination of roughly 40% of German exports.

Based on the upturn in the economic environment, the bank is expecting to see slightly higher demand for medium and long-term financing. It believes that it has good prospects in the financing of power, renewable and water projects, as well as infrastructure and transportation projects. In regional terms, the focus will be primarily on markets that play a particular role for the German export economy. Apart from European countries, these include, in particular, the emerging economies in Asia and Latin America.

Notwithstanding the positive economic outlook, KfW IPEX-Bank anticipates that in 2011 the total supply of financing from national and European banks will continue to be subject to restrictions. These result on the one hand from balance sheet clean-ups during the financial crisis and, on the other hand, from the expected increase in capital requirements under Basel III. The syndicated lending market will likewise continue to be weak. As a consequence, KfW IPEX-Bank continues to expect that club deals will predominate and that, overall, there will be a high level of competition for low-risk structures with good collateral. In this market environment, the structuring and sector expertise of KfW IPEX-Bank will be particularly in demand.

The bank will continue to focus on providing financing to support the German and European export economy and on trends in the economic and social 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. In addition, it will pay special attention to medium and small-sized exporters.

In view of the general conditions outlined above, KfW IPEX-Bank expects in 2011 to record new business volume in export and project finance of EUR 8.6 billion. For 2012, 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 2011, which will depend largely on the extent of the necessary risk provisions.

Corporate governance declaration

The Management Board and the Board of Supervisory Directors of KfW IPEX-Bank have resolved to adopt the principles of the Public Corporate Governance Code of the Federal Republic (PCGK) for KfW IPEX-Bank. A declaration of compliance with the recommendations of the PCGK is contained in the Corporate Governance Report of KfW IPEX-Bank.

BALANCE SHEET OF KFW IPEX-BANK GMBH AS AT 31 DECEMBER 2010

Assets

		31 Dec. 2010			31 Dec. 2009		
	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			5			4	
b) Funds with central banks			0			0	
of which: at Deutsche Bundesbank	*0*						
c) Funds at postal giro offices			0	**5**		0	**4**
2. Loans and advances to banks							
a) due on demand			315,599			269,128	
b) other loans and advances			273,157	**588,756**		1,119,777	**1,388,905**
3. Loans and advances to customers				**20,993,407**			**21,077,680**
of which: secured by property lines	*0*						
of which: municipal loans	*37,938*						
4. Bonds and other fixed-income securities							
a) Money market instruments							
aa) of public issuers		0			101,210		
of which: eligible as collateral with the Deutsche Bundesbank	*0*						
ab) of other issuers		0	0		0	101,210	
of which: eligible as collateral with the Deutsche Bundesbank	*0*						
b) Bonds and notes							
ba) of public issuers		112,425			112,508		
of which: eligible as collateral with the Deutsche Bundesbank	*112,425*						
bb) of other issuers		1,913,940	2,026,365		2,771,651	2,884,159	
of which: eligible as collateral with the Deutsche Bundesbank	*1,569,751*						
c) Own bonds			0	**2,026,365**		0	**2,985,369**
Nominal value	0						
5. Shares and other non-fixed income securities				**9,140**			**7,704**
6. Investments				**106,093**			**91,840**
of which: in banks	*0*						
of which: in financial services institutions	*0*						
7. Assets held in trust				**21,488**			**135,215**
of which: loans held in trust	*21,488*						
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 licences to such rights and assets			331			251	
c) Goodwill			0			0	
d) Payments on account			0	**331**		0	**251**
9. Property, plant and equipment				**414**			**584**
10. Other assets				**2,680**			**11,419**
11. Prepaid expenses and deferred charges				**18,467**			**17,759**
Total assets				23,767,146			25,716,730

Liabilities and equity

		31 Dec. 2010			31 Dec. 2009		
	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			68,434			14,015	
b) with agreed term or period of notice			18,499,463	**18,567,897**		20,865,149	**20,879,164**
2. Liabilities to customers							
a) Savings deposits			0			0	
b) other liabilities							
ba) due on demand		0			0		
bb) with agreed term or period of notice		311,195	311,195	**311,195**	277,129	277,129	**277,129**
3. Liabilities held in trust				**21,488**			**135,215**
of which: loans held in trust	*21,488*						
4. Other liabilities				**71,216**			**8,214**
5. Deferred income				**22,159**			**32,617**
6. Provisions							
a) Provisions for pensions and similar commitments			63,717			47,535	
b) Tax provisions			35,492			6,366	
c) other provisions			175,926	**275,135**		133,975	**187,876**
7. Subordinated liabilities				**1,302,200**			**1,207,830**
8. Profit participation capital				**486,454**			**424,137**
of which: due within two years	*0*						
9. Fund for general banking risks				**150,000**			**150,000**
10. Equity							
a) Subscribed capital			2,100,000			2,044,849	
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		5,318	5,318		5,157	5,157	
d) Balance sheet profit/loss			4,092	**2,559,402**		(85,450)	**2,414,548**
Total liabilities and equity				23,767,146			25,716,730
1. Contingent liabilities							
a) From the endorsement of rediscounted bills		0			0		
b) From financial guarantees		2,105,034			2,308,160		
c) Assets pledged as collateral on behalf of third parties		0	2,105,034		0	2,308,160	
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		5,785,656	5,785,656		6,762,070	6,762,070	

INCOME STATEMENT OF KFW IPEX-BANK GMBH FROM 1 JANUARY 2010 TO 31 DECEMBER 2010

Expenses

		1 Jan. – 31 Dec. 2010			1 Jan. – 31 Dec. 2009		
	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands
1. Interest expense				**456,457**			**495,844**
2. Commission expense				**924**			**755**
3. Net trading expense				**0**			**1,770**
4. Administrative expense							
a) Personnel expense							
aa) Wages and salaries		53,452			48,657		
ab) Social security contributions, expense for pension provision and other employee benefits		10,460	63,912		7,104	55,761	
of which: for pension provision	*4,744*						
b) Other administrative expense			63,129	**127,041**		62,547	**118,308**
5. Depreciation and impairment on property, plant and equipment and intangible assets				**288**			**234**
6. Other operating expenses				**25,895**			**0**
7. Write-downs of and value adjustments on loans and certain securities and increase of loan loss provisions				**32,514**			**441,529**
8. Write-downs of and value adjustments on investments, shares in affiliated enterprises and securities treated as fixed assets				**83**			**25,407**
9. Expenses under profit and loss agreements				**29,481**			**0**
10. Extraordinary expenses				**8,902**			**0**
11. Taxes on income				**33,872**			**21,889**
12. Net income for the year				**144,694**			**0**
Total expenses				860,151			1,105,736
1. Net income/net loss for the year				**144,694**			**(140,602)**
2. Loss carried forward				**(85,450)**			**0**
3. Allocated from silent partner contribution				**0**			**55,152**
4. Replenishment of silent partner contribution				**(55,152)**			**0**
5. Balance sheet profit/loss				4,092			(85,450)

Income

		1 Jan. – 31 Dec. 2010			1 Jan. – 31 Dec. 2009		
	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			647,867			725,093	
b) Fixed-income securities and debt register claims			36,397	**684,264**		86,576	**811,669**
2. Current income from							
a) Shares and other non-fixed income securities			919			918	
b) Investments			23,253	**24,172**		34	**952**
3. Commission income				**135,574**			**124,252**
4. Other operating income				**16,141**			**1,197**
5. Income earned under profit and loss agreements				**0**			**27,064**
6. Net loss for the year				**0**			**140,602**
Total income				860,151			1,105,736

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 have been recognised at cost, par or at a lower value in accordance with the lower of cost or market principle.

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

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

No securities have been allocated to the trading stock. There was no reclassification of securities during the reporting year.

The investments have been recognised at purchase cost. In the event of permanent reduction in value, write-backs were recorded.

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

The statutory write-ups were made for all assets in accordance with Section 253 (5) of the German Commercial Code *(HGB)*.

Liabilities are recognised at their repayment value.

The foreign currency conversion was performed with regard to Section 256 a in conjunction with Section 340 h of the German Commercial Code *(HGB)*.

In the financial year 2010, based upon the new regulations under the German Accounting Law Modernisation Act *(BilMoG)*, provisions for pensions and similar commitments were valued for the first time in accordance with the projected unit credit method (previous year: entry age normal method). The calculation was made on the basis of "Richttafeln 2005 G" (Mortality and Disability Tables) by Dr Klaus Heubeck, applying the following actuarial assumptions:

	31 Dec. 2010
	in % p.a.
Interest rate for accounting purposes	5.15
Projected unit credit dynamics[1)]	1.00 bis 3.00
Index-linking of pensions[2)]	1.00 bis 2.50
Employee fluctuation rate[3)]	0 bis 4.00
Wage and salary increases[1)]	1.60 bis 2.40

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 exercised the option under Section 274 (1) of the German Commercial Code *(HGB)*, as amended by the German Accounting Law Modernisation Act *(BilMoG)*, not to recognise a net deferred tax asset resulting from the offsetting of deferred tax liabilities of EUR 1,260 thousand against deferred tax assets. The deferred tax liability is attributable to accounting differences relating to the reporting of investments.

The previous year's figures were not restated to conform to the new *BilMoG* rules.

The other provisions are recognised at their expected recourse value. Where the residual term of the provision 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 were allocated for contingent liabilities and irrevocable loan commitments, both for individually established risks (specific loan loss provisions) and for impairments that have not yet been identified individually (portfolio loan loss provisions).

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

According to the accounting policies of KfW IPEX-Bank to date, E&P promotional business (assets held in trust and liabilities held in trust) administered for KfW under a dispositive trust *(Ermächtigungstreuhand)* has been recognised in the balance sheet up to and including the financial year 2009. As this business does not have a significant effect on the net results of operations or the risk position of KfW IPEX-Bank, E&P promotional business that is structured as a dispositive trust has not been recognised in the balance sheet in the financial year 2010. The previous year's figures have been restated to make them comparable.

The aim of this approach is to recognise as assets in the balance sheet only those loans administered for third parties on a trust basis in respect of which KfW IPEX-Bank has legal ownership and, therefore, direct recourse.

This will result in a more transparent presentation of net assets and the results of operations, as in future the balance sheet of KfW IPEX-Bank will be predominantly characterised by such business, which also has a significant effect on the results of operations of KfW IPEX-Bank.

Material differences between IFRS and the German Commercial Code *(HGB)*

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

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

As in the case of the financial statements of KfW IPEX-Bank prepared according to the German Commercial Code *(HGB)*, under IFRS, pension provisions are valued using the projected unit credit method with regard to demographic factors and actuarial assumptions (including projected unit credit dynamics, employee fluctuation rate). Owing to the corridor regulation (IAS 19) and the application of IFRS-specific valuation parameters, under IFRS this nevertheless results in a provisions figure that is different from that under financial statements prepared in accordance with the *HGB*.

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

Amortisation of premiums and discounts as well as processing fees that are similar in nature to interest is performed using the effective interest method under IFRS. Processing fees not to be amortised according to the effective interest method are collected in the commission earned.

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

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 advances and loans

		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	315,599	80,925	92,714	69,372	21,328	8,818	588,756
(as at 31 Dec. 2009)	*269,128*	*530,744*	*481,994*	*75,847*	*22,214*	*8,978*	*1,388,905*
Loans and advances to customers	0	837,442	2,005,930	11,395,426	6,666,766	87,843	20,993,407
(as at 31 Dec. 2009)	*0*	*901,281*	*2,203,815*	*11,019,436*	*6,861,367*	*91,781*	*21,077,680*
Total	315,599	918,367	2,098,644	11,464,798	6,688,094	96,661	21,582,163
(as at 31 Dec. 2009)	*269,128*	*1,432,025*	*2,685,809*	*11,095,283*	*6,883,581*	*100,759*	*22,466,585*
in %	2	4	10	53	31	0	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	377,463	30,374	407,837
Enterprises in which KfW IPEX-Bank holds a stake	0	58,088	58,088
Subordinated assets	0	121,058	121,058

Bonds and other fixed-income securities

Listed/marketable securities

	31 Dec. 2010	31 Dec. 2009
	EUR in thousands	EUR in thousands
Listed securities	1,996,404	2,907,218
Unlisted securities	29,961	78,151
Marketable securities	2,026,365	2,985,369

The "Bonds and other fixed-income securities" item totalling EUR 2,026 million (previous year: EUR 2,985 million) contains securities of KfW as an affiliated enterprise amounting to EUR 50 million. The portfolio includes securities amounting to EUR 757 million (previous year: EUR 1,013 million) which fall due during the year following the balance sheet date.

Shares and other non-fixed-income securities

Listed/marketable securities

	31 Dec. 2010	31 Dec. 2009
	EUR in thousands	EUR in thousands
Listed securities	0	0
Unlisted securities	9,140	7,704
Marketable securities	9,140	7,704

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

Fixed assets

	Changes 2010[1]	Residual book value 31 Dec. 2010	Residual book value 31 Dec. 2009
	EUR in thousands	EUR in thousands	EUR in thousands
Shares and other non-fixed-income securities	1,436	9,140	7,704
of which included in valuation units within the meaning of Section 254 HGB	*1,436*	*9,140*	*7,704*
Investments	14,253	106,093	91,840
Bonds and other fixed-income securities	– 761,826	1,883,190	2,645,016
of which included in valuation units within the meaning of Section 254 HGB	*– 140,602*	*1,048,319*	*1,188,921*
Total	– 746,137	1,998,423	2,744,560

	Purchase/ production costs	Additions	Disposals	Transfers	Allocations	Depreciation/ impairment		Residual book value	Residual book value
						Total	2010	31 Dec. 2010	31 Dec. 2009
	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	265	157	1	0	0	90	76	331	251
Property, plant and equipment[2]	1,364	44	1	0	0	993	212	414	584
Sum	1,629	201	2	0	0	1,083	288	745	835
Total								1,999,168	2,745,395

[1] Including exchange rate changes
[2] Of which as at 31 December 2010: – total value of plant and equipment EUR 414 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.

During the financial year 2010, no securities were reclassified.

Bonds and other fixed-income securities held under fixed assets were valued in accordance with the moderate lower of cost or market principle; as a result, write-downs amounting to EUR 37 million were avoided.

The book value of the marketable securities not valued at the lower of cost or market is EUR 1,869 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	50.0	2,625	– 1,433
2.	Railpool GmbH, Munich	50.0	942	– 1,969
3.	Railpool Holding GmbH & Co. KG, Munich	50.0	– 246	– 2,201
		in %	USD in thousands	USD in thousands
4.	Canas Leasing Ltd., Dublin, Ireland	50.0	0	0
5.	Freighter Leasing S.A., Luxembourg	22.2	15,268	1,633
6.	Sperber Rail Holdings Inc., Wilmington, USA[1)]	100.0	N/S	N/S

[1)] *Company established in 2010*

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

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

Assets held in trust

	31 Dec. 2010	31 Dec. 2009	Change
	EUR in thousands	EUR in thousands	EUR in thousands
Loans and advances to customers	21,488	135,215	– 113,727
Total	21,488	135,215	– 113,727

The assets held in trust of EUR 21,488 thousand (previous year: EUR 135,215 thousand) incorporate such loan business that is administered on a trust basis by KfW IPEX-Bank for third parties and is legally owned by KfW IPEX-Bank.

In addition to assets held in trust that are shown on the balance sheet, there is trust business that is not shown on the balance sheet, in respect of which KfW IPEX-Bank has neither beneficial ownership nor legal ownership. These relate to KfW's E&P promotional business administered by KfW IPEX-Bank on a trust basis totalling EUR 21.8 billion (previous year: EUR 22.4 billion):

	31 Dec. 2010	31 Dec. 2009	Change
	EUR in thousands	EUR in thousands	EUR in thousands
Loans and advances to banks			
a) due on demand	0	0	0
b) other loans and advances	1,407,809	1,544,089	– 136,280
Loans and advances to customers	20,312,106	20,838,287	– 526,181
Investments	33,655	27,955	5,700
Shares	0	25,090	– 25,090
Total	21,753,570	22,435,421	– 681,851

Other assets

The other assets totalling EUR 2,680 thousand (previous year: EUR 11,419 thousand) chiefly relate to loans and advances to the financial authorities resulting from tax prepayments and tax refund claims amounting to EUR 1,182 thousand (previous year: EUR 7,204 thousand) as well as receivables from lease security deposits amounting to EUR 447 thousand (previous year: EUR 335 thousand).

Prepaid expenses and deferred charges

Prepaid expenses and deferred charges include in particular upfront interest payments from swaps amounting to EUR 10,933 thousand (previous year: EUR 10,000 thousand) and accrued Hermes fees amounting to EUR 4,105 thousand (previous year: EUR 4,877 thousand).

Notes on liabilities

Liabilities to banks and customers

Maturities structure of liabilities

		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
Liabilities to banks	68,434	5,085,403	2,901,772	8,700,749	1,689,443	122,096	18,567,897
(as at 31 Dec. 2009)	*14,015*	*3,942,293*	*4,187,677*	*10,135,495*	*2,499,099*	*100,585*	*20,879,164*
Liabilities to customers – Other liabilities	0	129,798	91,649	14,963	71,969	2,816	311,195
(as at 31 Dec. 2009)	*0*	*236,764*	*3,402*	*7,853*	*26,275*	*2,835*	*277,129*
Total	68,434	5,215,201	2,993,421	8,715,712	1,761,412	124,912	18,879,092
(as at 31 Dec. 2009)	*14,015*	*4,179,057*	*4,191,079*	*10,143,348*	*2,525,374*	*103,420*	*21,156,293*
in %	0	28	16	46	9	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	18,531,638	0	18,531,638
Enterprises in which KfW IPEX-Bank holds a stake	0	6,271	6,271

Liabilities held in trust

	31 Dec. 2010	31 Dec. 2009	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	7,918	66,549	– 58,631
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	13,570	68,666	– 55,096
Total	21,488	135,215	– 113,727

There were also liabilities held in trust relating to KfW's E&P promotional business administered by KfW IPEX-Bank on a trust basis totalling EUR 21.8 billion (previous year: EUR 22.4 billion) that are not shown on the balance sheet.

Other liabilities

Other liabilities totalling EUR 71,216 thousand (previous year: EUR 8,214 thousand) chiefly relate to outstanding interest payments for the profit participation capital of KfW Beteiligungsholding GmbH for 2009 and 2010 amounting to EUR 58,494 thousand. Payment is due on 29 April 2011. In addition, they contain the balancing items for the foreign currency translation of derivative hedges totalling EUR 8,720 thousand (previous year: EUR 4,417 thousand), pro rata interest for subordinated liabilities amounting to EUR 2,280 thousand (previous year: EUR 2,070 thousand) as well as liabilities to the financial authorities amounting to EUR 996 thousand (previous year: EUR 849 thousand).

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 *(Kreditwesengesetz, KWG).*

Interest expenses for subordinated loans in 2010 amounted to the equivalent of 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 486 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 *(Kreditwesengesetz, 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. In 2010, the profit participation capital was replenished by EUR 29 million, having absorbed a loss in 2009 on account of the net annual loss.

For 2010 interest expense for the profit participation capital amounting to EUR 60 million was made up of the payment of interest not paid in 2009 amounting to EUR 27 million and interest payments for 2010 amounting to EUR 33 million. For 2009 no interest was paid on account of the net annual loss.

Provisions

As well as the provisions for pensions and similar commitments amounting to EUR 63,717 thousand (previous year: EUR 47,535 thousand) and provisions for taxes amounting to EUR 35,492 thousand (previous year: EUR 6,366 thousand), additional provisions amounting to EUR 175,926 thousand (previous year: EUR 133,975 thousand) were recognised as at 31 December 2010. The latter related in particular to provisions for credit risks amounting to EUR 151,838 thousand and liabilities to staff totalling EUR 16,910 thousand.

Deferred income

The deferred income totalling EUR 22,159 thousand (previous year: EUR 32,617 thousand) chiefly comprises discounts from receivables purchases amounting to EUR 17,509 thousand (previous year: EUR 27,301 thousand) as well as upfront interest payments from swaps that have been received but do not yet impact on income amounting to EUR 2,872 thousand (previous year: EUR 2,864 thousand).

Other required disclosures on liabilities and equity

Contingent liabilities

Business Sector	31 Dec. 2010	31 Dec. 2009	Change
	EUR in millions	EUR in millions	EUR in millions
Power, Renewables and Water	564	639	– 75
Manufacturing Industries, Retail, Health	427	504	– 77
Aviation and Rail[1)]	344	0	344
Shipping	270	245	25
Basic Industries	199	219	– 20
Transport and Social Infrastructure[2)]	137	100	37
Financial Institutions and Trade & Commodity Finance	121	120	1
Leveraged Finance, Mezzanine, Equity	41	45	– 4
Telecommunications and Media	2	39	– 37
Rail and Road[3)]	0	397	– 397
Total	2,105	2,308	– 203

1) As at 31 Dec.2009, previous business sector "Aviation", as at 31 Dec. 2010, additional business sector "Rail" from previous business sector "Rail and Road"
2) As at 31 Dec. 2009, previous business sector "Ports, Airports, Construction/PPP", as at 31. Dec 2010, additional business sector "Road" from previous business sector "Rail and Road"
3) Business sector only as at 31 Dec. 2009, as at 31 Dec. 2010 divided between business sectors "Aviation and Rail" and "Transport and Social Infrastructure"

The new guarantees given in the 2010 financial year amounted to EUR 246 million. Altogether EUR 449 million was redeemed in 2010.

Irrevocable loan commitments

Business Sector	31 Dec. 2010			31 Dec. 2009			Change		
	Cash loans	Guaran-tees	Total	Cash loans	Guaran-tees	Total	Cash loans	Guaran-tees	Total
	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions
Manufacturing Industries, Retail, Health	914	62	**976**	1,340	81	1,421	– 426	– 19	**– 445**
Power, Renewables and Water	738	237	**975**	731	182	913	7	55	**62**
Shipping	634	287	**921**	1,288	310	1,598	– 654	– 23	**– 677**
Aviation and Rail[1)]	711	69	**780**	562	1	563	149	68	**217**
Transport and Social Infrastructure[2)]	526	122	**648**	230	105	335	296	17	**313**
Telecommunications and Media	593	8	**601**	400	17	417	193	– 9	**184**
Basic Industries	507	76	**583**	741	122	863	– 234	– 46	**– 280**
Leveraged Finance, Mezzanine, Equity	194	19	**213**	139	16	155	55	3	**58**
Financial Institutions and Trade & Commodity Finance	59	30	**89**	60	52	112	– 1	– 22	**– 23**
Rail and Road[3]	0	0	**0**	316	69	385	– 316	– 69	**– 385**
Total	4,876	910	5,786	5,807	955	6,762	– 931	– 45	– 976

1) As at 31 Dec. 2009, previous business sector "Aviation", as at 31 Dec. 2010, additional business sector "Rail" from previous business sector "Rail and Road"
2) As at 31 Dec. 2009, previous business sector "Ports, Airports, Construction/PPP", as at 31 Dec. 2010, additional business sector "Road" from previous business sector "Rail and Road"
3) Business sector only as at 31 Dec. 2009, as at 31 Dec. 2010 divided between business sectors "Aviation and Rail" and "Transport and Social Infrastructure"

Total irrevocable loan commitments as at 31 December 2010 stood at EUR 5,786 million. The risks from these transactions were 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 2010 financial year the revenues from Frankfurt am Main and London were as follows:

	31 Dec. 2010			31 Dec. 2009			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	668,833	15,431	684,264	809,233	2,436	811,669	– 140,400	12,995	– 127,405
Current income from									
a) Shares and other non-fixed-income securities	919	0	919	919	0	919	0	0	0
b) Investments	23,253	0	23,253	34	0	34	23,219	0	23,219
c) Shares in affiliated companies	0	0	0	0	0	0	0	0	0
Commission income	132,256	3,318	135,574	121,010	3,242	124,252	11,246	76	11,322
Other operating income	15,370	771	16,141	1,193	4	1,197	14,177	767	14,944
Total	840,631	19,520	860,151	932,389	5,682	938,071	– 91,758	13,838	– 77,920

Other operating income

Other operating income amounting to EUR 16,141 thousand (previous year: EUR 1,197 thousand) chiefly relates to unrealised exchange gains of EUR 10,880 thousand and realised exchange gains of EUR 1,328 thousand from the foreign currency result, the proceeds from the sale of the investment in Panda Hereford Ethanol amounting to EUR 2,585 thousand, revenue for services provided to Group companies amounting to EUR 561 thousand, as well as reversals of provisions amounting to EUR 476 thousand.

Extraordinary loss

The extraordinary loss in the amount of EUR 9 million was due solely to the amended valuation of the provisioning needs for current and future pension entitlements, owing to the implementation of the German Accounting Law Modernisation Act *(Bilanzrechtsmodernisierungsgesetz, BilMoG).*

Taxes on income

The taxes on income item totalling EUR 33,872 thousand (previous year: EUR 21,889 thousand) is made up of corporate income tax/capital gains tax including a solidarity surcharge totalling EUR 16,141 thousand, trade tax totalling EUR 17,653 thousand and foreign withholding tax of EUR 78 thousand.

Other required disclosures

Assets and liabilities denominated in foreign currency

Assets and liabilities denominated in foreign currency as well as cash transactions that were not settled by the balance sheet date were converted into euros at the foreign exchange rates applicable as at 31 December 2010.

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 2010 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 13 billion (previous year: EUR 12 billion), of which EUR 12 billion constituted loans and advances to customers.

The total liabilities denominated in foreign currency amounted to EUR 13 billion (previous year: EUR 12 billion), of which EUR 10 billion constituted liabilities to banks.

Other financial liabilities

Total payment obligations amounting to EUR 48 million arose from equity finance (previous year: EUR 53 million).

Auditor's fee

Information on the total auditing fee is 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. 2010	31 Dec. 2010	31 Dec. 2010
	EUR in millions	EUR in millions	EUR in millions
Fixed assets			
Bonds and other fixed-income securities	1,034	1,057	1,080
Liquidity reserve			
Bonds and other fixed-income securities	64	65	69
Total	1,098	1,122	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) to form synthetic floaters.

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.

The securities in the liquidity reserve are likewise combined with hedging transactions (interest rate swaps) against interest rate risks in micro valuation units. Verification of the effectiveness of the hedge is dispensed with, since the system ensures that ineffectiveness is recognised on the basis of imparity in profit and loss accounting, pursuant to the strict lower-of-cost-and-market principle *(strenges Niederstwertprinzip).*

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 macro hedge, alongside the valuation units in accordance with Section 254 of the German Commercial Code *(HGB).* The risk-mitigating effect of the derivatives is verified by the Risk Controlling department using appropriate risk measurement.

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 exchanges 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 31 December 2010. It discloses the positive and negative fair values of derivative positions as at 31 December 2010.

Derivative transactions – volumes

	Nominal values		Fair values positive	Fair values negative
	31 Dec. 2010	31 Dec. 2009	31 Dec. 2010	31 Dec. 2010
	EUR in millions	EUR in millions	EUR in millions	EUR in millions
Contracts with interest rate risks				
Interest rate swaps	8,622	7,548	150	374
Total	8,622	7,548	150	374
Contracts with currency risks				
Cross-currency swaps	152	160	5	24
FX swaps	283	100	8	1
Forward exchange swaps	17	66	0	0
Total	452	326	13	25
Shares and other price risks	0	0	0	0
Credit derivatives	0	40	0	0
Total	9,074	7,914	163	399

Derivative transactions – maturity

	Interest rate risks		Currency risks		Credit derivatives	
	31 Dec. 2010	31 Dec. 2009	31 Dec. 2010	31 Dec. 2009	31 Dec. 2010	31 Dec. 2009
	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions
Maturity						
up to 3 months	188	267	254	121	0	0
more than 3 months to 1 year	1,024	602	88	40	0	0
more than 1 year to 5 years	4,447	4,094	80	124	0	40
more than 5 years	2,963	2,586	30	41	0	0
Total	8,622	7,549	452	326	0	40

Derivative transactions – counterparties

	Nominal values		Fair values positive	Fair values negative
	31 Dec. 2010	31 Dec. 2009	31 Dec. 2010	31 Dec. 2010
	EUR in millions	EUR in millions	EUR in millions	EUR in millions
Counterparties				
OECD banks	6,940	6,381	46	377
Banks outside OECD	0	0	0	0
other counterparties	2,134	1,533	117	22
Public sector	0	0	0	0
Total	9,074	7,914	163	399

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 6,998 million as at 31 December 2010 (previous year: EUR 5,609 million). In addition, financial guarantees amounting to EUR 36 million (previous year: EUR 35 million) were administered.

	31 Dec. 2010	31 Dec. 2009	Change
	EUR in millions	EUR in millions	EUR in millions
Market business	3,210	2,664	546
E&P promotional business[1)]	3,788	2,945	843
Total	6,998	5,609	1,389

[1)] Including EUR 319 million of refinancing for CIRR ship financings by third-party banks (previous year: EUR 80 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 2010 financial year.

	2010	2009	Change
Female employees	246	244	2
Male employees	280	277	3
Staff not covered by collective agreements	455	431	24
Staff covered by collective agreements	71	90	– 19
Total	526	521	5

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 2010 financial year was EUR 1,833 thousand. Details of the compensation of the members of the Management Board for the 2010 financial year are given in the following table:

Annual compensation

	Monetary compensation	Variable compensation	Other compensation	Total
	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands
Heinrich Heims (Speaker of the Management Board)	338	0	15	353
Michael Ebert[1)]	395	0	26	421
Christiane Laibach	338	0	10	348
Christian K. Murach	338	0	16	354
Markus Scheer	338	0	19	357
Total	1,747	0	86	1,833

[1)] *Including a one-off special payment*

The total compensation paid to the members of the Board of Supervisory Directors was EUR 155 thousand. In addition, attendance fees amounting to EUR 72 thousand were paid.

As at 31 December 2010, provisions for pensions for former members of the Management Board and their dependents stood at EUR 2,556 thousand.

As at 31 December 2010 there were no loans to members of the Management Board.

Mandates held by statutory representatives or other employees on the supervisory boards of major corporations (as at 31 December 2010)

Heinrich Heims

ArcelorMittal Eisenhüttenstadt GmbH, Eisenhüttenstadt (until 31 May 2010)
Georgsmarienhütte Holding GmbH, Georgsmarienhütte (until 31 August 2010)

Gisela von Krosigk

Galaxy S. à. r. l., Luxembourg

Board of Supervisory Directors

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

Dr Ulrich Schröder
(Chief Executive Officer of KfW Bankengruppe)

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

Dr Hans Bernhard Beus
(State Secretary, Federal Ministry of Finance)
from 4 March 2010

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

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

Werner Gatzer
(State Secretary, Federal Ministry of Finance)
until 31 January 2010

Management Board

Heinrich Heims
Steinbach (Taunus)
(Speaker of the Management Board until 12 August 2010)

Harald D. Zenke
Böblingen
(Speaker of the Management Board from 1 January 2011)

Michael Ebert
Mainz

Christiane Laibach
Frankfurt am Main

Christian K. Murach
Sulzbach (Taunus)

Markus Scheer
Hofheim am Taunus

Frankfurt am Main, 8 February 2011

Michael Ebert **Christiane Laibach** **Christian K. Murach**

Markus Scheer **Harald D. Zenke**
(Speaker)

AUDITOR'S REPORT

We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system, and the management report of the KfW IPEX-Bank GmbH, Frankfurt am Main, for the business year from 1 January to 31 December 2010. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

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

Our audit has not led to any reservations.

In our opinion, based on the fi ndings of our audit, the annual financial statements comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with German principles of proper accounting. The management report is consistent with the annual financial statements and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development.

Frankfurt am Main, 4 March 2011

KPMG AG
Wirtschaftsprüfungsgesellschaft

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Wirtschaftsprüfer
(German Public Auditor)

Schweitzer
Wirtschaftsprüfer
(German Public Auditor)

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