Management Report and Financial Statements 2019

KFW IPEX-Bank

2019

Key figures

Volume of lending of the Export and Project Finance business sector

Volume of lending of the business sector[1] by sector department	2019
	EUR in billions
Power, Renewables and Water	15.2
Maritime Industries	14.8
Aviation, Mobility & Transport	9.7
Basic Industries	9.3
Industries and Services	8.7
Infrastructure	8.2
Financial Institutions, Trade and Commodity Finance	3.1
Total	**69.1**

[1] For which KfW IPEX-Bank GmbH is responsible

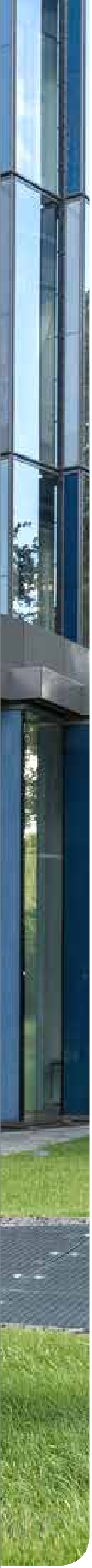
KfW IPEX-Bank GmbH key figures

	2019	2018
	EUR in billions	EUR in billions
Balance sheet key figures		
Total assets	26.0	27.3
Volume of lending	36.2	35.1
Contingent liabilities	2.0	1.6
Irrevocable loan commitments	9.1	8.4
Assets held in trust	0.4	0.4
Volume of business (total assets, contingent liabilities and irrevocable loan commitments)	37.1	37.3
Equity	4.1	3.9
Equity ratio (%)	15.7	14.4
Results	**EUR in millions**	**EUR in millions**
Operating income before risk provisions/valuations	277	258
Risk provisions and valuations	–85	–5
Profit transferred due to a profit pooling, profit transfer or partial profit transfer agreement	185	238
Result of the Export and Project Finance business sector (segment report, consolidated financial statements of KfW Group)	499	537
Number of employees (including Management Board)	**745**	**697**

Contents

The figures in tables were calculated exactly and added up.
Figures presented may not add to totals because of independent rounding.

Actual zero amounts and amounts rounded to zero are presented as EUR 0 million.



Dear Readers,

Together with our employees, we can look back on a very successful 2019 financial year. KfW IPEX-Bank reached a historic peak, with new commitments of EUR 22.1 billion for export and project finance benefitting the German and European economies – including EUR 3.5 billion for bank refinancing under the CIRR ship and ERP export financing schemes.

We are particularly proud of such a good financial year as we achieved these results despite the economic and political challenges that the world is facing and with significant investment pressure on banks and institutional investors. In spite of such adversity, we were very successful in fulfilling our mission to support German and European companies involved in the export economy on global markets.

In addition to providing export finance for key industrial sectors, KfW IPEX-Bank focused on infrastructure projects and projects aimed at securing Europe's supply of raw materials. Last year there was a noticeable increase in environmental awareness in large parts of the world, and this is reflected – as in previous years – in our extensive involvement in financing environmental and climate protection measures. In doing this, we are making an important contribution to growth, prosperity and employment as well as to energy transition and are thus helping to ensure a liveable, sustainable future.

This is impressively demonstrated by new commitments totalling EUR 3.2 billion from the Power, Renewables and Water sector department, which in 2019 provided financing for numerous onshore and offshore wind farms and LNG-to-power projects, emphasising our commitment to supporting the energy sector with the transition and to developing country-specific solutions together with customers and business partners. Conventional energy projects nevertheless remain important, as they are needed to offset seasonal fluctuations and weather-dependent technologies as well as to ensure security of supply.

We also underpinned our strong position in the Maritime Industries sector department with new commitments of EUR 3.1 billion. A large proportion of these funds will be used to help mitigate impact on the climate, by fitting merchant and cruise ships with relatively low-emission and energy-efficient LNG engines and by building up the necessary infrastructure with financing for LNG transport ships, for example.

From KfW's Export and Project Finance business sector – for which KfW IPEX-Bank is responsible – we also contributed EUR 499 million to KfW's consolidated earnings in 2019, affirming our role as one of KfW's main sources of earnings. We therefore played an active part in securing KfW Group's long-term promotional capacity.

We would like to thank all our employees in Germany and abroad for what we have achieved. They work with dedication and skill to meet our clients' needs and help them carry out their projects around the world, as well as ensuring the ongoing development of our bank as a leading, reliable and sustainable specialist bank. We would also like to thank the Board of Supervisory Directors for its close cooperation, as well as KfW's organisational units that work with us and on our behalf.

We have achieved a great deal together, and we want to continue to accomplish a great deal together in the years to come. We are striving to expand our position organically as a specialist bank and competent partner to the German and European economies. In the future, we will continue to actively incorporate our sector, structuring and country expertise into our financings, to take on leading roles and to involve other banks and institutional investors even more, setting a strategic course that will increase KfW Group's earnings potential in the long term and will enable KfW to more effectively implement its statutory mission to support the economy both in Germany and elsewhere in Europe.

We will continue to do this worldwide in 2020 from our headquarters in Frankfurt, together with our representative offices and our branch in London. We will also have our new representative office in Bogotá, which will enable us to provide even better support for the German and European export economies with our expertise in local markets in the region.

Despite the forthcoming challenges and uncertainties resulting from the spread of coronavirus and its direct and indirect economic consequences, we are confident and enthusiastic about the new 2020 financial year and look forward to working with you.

Klaus R. Michalak, CEO

Claudia Schneider

Andreas Ufer

Markus Scheer

Looking to the future

Report of the Board of Supervisory Directors 2019

KfW IPEX-Bank is responsible for export and project finance within KfW Group. As of the end of December 2019, nearly 800 employees worked at its headquarters in Frankfurt and ten locations outside Germany.

During the past financial year, the Board of Supervisory Directors continued to fully carry out its duties of monitoring and advising the Management Board and cooperating closely with the Management Board. It was informed by the Management Board of all significant developments at the company in a timely, proactive and comprehensive manner, and was satisfied of the due and proper conduct of business. The Board of Supervisory Directors was involved in all decisions of major importance for the company and granted its approval in relevant cases, where required, following extensive consultation and review. A focal point in 2019 was KfW IPEX-Bank's future strategic direction in the context of the current market environment and the associated possibility of the bank falling under ECB supervision.

Meetings of the Board of Supervisory Directors

In accordance with its Rules of Procedure, the Board of Supervisory Directors again held an ordinary meeting each quarter in 2019. It was provided with regular updates from the Management Board on the bank's results, risk situation and current business development. It received relevant risk and performance reports as well as the interim financial statements and discussed these at length. In a strategy discussion at the meeting of the Board of Supervisory Directors in the first quarter, the Management Board and Board of Supervisory Directors debated in detail all aspects of the further development of the business model.

The Board of Supervisory Directors was supported in its duties by five committees, each consisting of four members of the Board of Supervisory Directors. In accordance with their respective areas of responsibility, these committees examined current issues in depth, prepared recommendations and reported accordingly to the Board of Supervisory Directors.

The **Executive Committee** is primarily responsible for personnel matters in relation to the Management Board and for the bank's management policies. It monitored compliance with the Management Board's Rules of Procedure and advised the Board of Supervisory Directors regarding the annual evaluation of the structure, size, composition and performance of the Management Board and the Board of Supervisory Directors. The committee met four times during the reporting year.

The **Remuneration Control Committee** dealt mainly with the remuneration strategy and the process for identifying risk takers. It also supported the Board of Supervisory Directors with monitoring duties to ensure that systems of remuneration for the various groups (Management Board, employees, head of the risk controlling function, head of the compliance function and risk takers) were appropriate. It examined the suitability of the remuneration system for members of the Management Board and the compatibility of this system with the corporate strategy geared towards the company's sustainable development, and made a recommendation in this regard to the Board of Supervisory Directors, also to be put to the shareholder. In addition, it assessed the impact of these remuneration systems on the company's risk, capital and liquidity situation, as required by the German Remuneration Ordinance for Institutions (*Institutsvergütungsverordnung – IVV*). The committee was able to consult with KfW IPEX-Bank's Remuneration Officer at all times when performing its supervisory duties. Five committee meetings took place during 2019.

The **Risk Committee** is responsible for advising the Board of Supervisory Directors on the current risk situation, future risk tolerance and the risk strategy, and helps it to monitor implementation of this strategy. During its meetings, risk reports and risk-specific developments in selected portfolios were discussed in detail. The committee monitored implementation of the risk culture and examined whether the incentives set within the remuneration system take sufficient account of the company's risk, capital and liquidity structure and of the probability and due dates of income. It ensured that the strategies are commensurate with the company's specified risk appetite. The committee met four times during the reporting year.

The **Audit Committee** deals primarily with accounting matters and monitors the underlying process. Another core responsibility is to closely monitor the performance of audits by the auditor and to oversee the swift resolution of any deficiencies identified by the auditor. The committee recommended that the Board of Supervisory Directors approve the annual financial statements as of 31 December 2018 and the 2018 management report. The Audit Committee also received detailed reports on the resolution status of audit findings regarding the IT and Internal Auditing departments, both outsourced to KfW, as well as on regulatory audits performed during the current financial year. Further areas covered by the committee included monitoring the effectiveness of the risk management system, in particular the internal control system (ICS) and the Internal Auditing department. It held five meetings during 2019.

The **Loan Committee** is responsible for final approval of loans. In 2019, it took decisions on a total of 31 loan applications at the appropriate authorisation level and passed three resolutions on employee loans, two of which were anticipatory resolutions. The committee met nine times during the reporting period.

There were two instances where a member of the committee abstained from voting due to a conflict of interest.

Within the framework of their respective areas of responsibility, these committees addressed relevant issues in detail and, where appropriate, made recommendations to the Board of Supervisory Directors. The work of the committees was reported regularly and in detail in subsequent meetings of the Board of Supervisory Directors. The recommendations made by the committees during the reporting year were confirmed by the Board of Supervisory Directors without exception.

Training courses

Apart from the strategy discussion, KfW IPEX-Bank held two additional advanced training seminars for the Board of Supervisory Directors and the Management Board in 2019, covering the topics of 'Effective Cooperation between the Board of Supervisory Directors and the Management Board' and 'IT Security & Cyber Security'.

Changes to the Board of Supervisory Directors

There were no changes to the composition of the Board of Supervisory Directors or its committees in 2019.

Audit of the 2019 annual financial statements

Following completion of the audit and after conducting a final review of the annual financial statements as of 31 December 2019 and of the 2019 management report, the Board of Supervisory Directors approved the audit result, the annual financial statements and the management report at its first ordinary meeting, held today, with no objections, and recommended that the general shareholders' meeting approve the annual financial statements.

Discussion centred on the audit report of Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft (EY), covering the audit of the annual financial statements as of 31 December 2019 that were prepared by the Management Board as of 18 February 2020, and the management report for the 2019 financial year. EY issued an unqualified audit opinion on 3 March 2020.

The Board of Supervisory Directors would like to thank the Management Board and all employees for their commitment, hard work and achievements during the 2019 financial year.

Frankfurt, 20 March 2020
On behalf of the Board of Supervisory Directors

Joachim Nagel

Prof. Dr Joachim Nagel
Chairman of the Board of Supervisory Directors

Management Report

Economic Report

Review of 2019

General economic conditions

Global real gross domestic product grew by 2.9% in 2019 compared with 2018, according to estimates by the IMF (see table 'Gross domestic product and global trade at constant prices'). The global economy consequently grew more slowly than in 2018, when global real GDP increased by 3.6% year-on-year, and more slowly than the average for 2011 to 2018, also 3.6% per year. This was accompanied by lower growth in industrial production in the period from January to November 2019 compared with the corresponding period of the previous year (see table 'Industrial production'). As a result, global trade as measured by growth rates[1] also slowed (see table 'Gross domestic product and global trade at constant prices').

Gross domestic product and global trade at constant prices
Year-on-year changes in %

	2018[1]	Estimate 2019[2]	Average 2011–2018[3]
Global economy[4]	3.6	2.9	3.6
Global trade volume[5]	3.7	1.0	4.0

[1] Source: IMF (2020), World Economic Outlook. An Update to the Key WEO Projections, January 20, 2020
[2] Source: IMF (2020), World Economic Outlook. An Update to the Key WEO Projections, January 20, 2020
[3] Source: Calculations by KfW Research based on World Economic Outlook Data, October 2019 Edition, average calculated as the geometric mean of annual growth rates
[4] The IMF aggregates annual growth rates in gross domestic product of individual countries at constant prices based on shares of the country-specific gross domestic product, valued at purchasing power parity, in the corresponding global aggregate for the growth rate in global real gross domestic product.
[5] Goods and services, average annual percentage change in global exports and imports

Industrial production
Year-on-year changes in %

	Average January – November 2018	Average January – November 2019
Volume of global industrial production[1]	3.1	0.7

[1] Excluding construction; adjusted for seasonal effects, weighted for imports. Source: Calculations by KfW Research based on data from the CPB Netherlands Bureau for Economic Policy Analysis, average calculated as the geometric mean of monthly annual growth rates

As in the global economy as a whole, economic growth in the member states of the European Economic and Monetary Union (EMU) also lost momentum last year. Economic output in the EMU countries as measured by real GDP rose by 1.2% year-on-year in 2019. While the increase in real GDP was only 0.1 percentage points below average growth for the period from 2011 to 2018, the difference compared with 2018 was greater, at 0.7 percentage points (see table 'Gross domestic product at constant prices'). The slowdown in real economic growth affected all four major economies in the euro area (Germany, France, Italy and Spain).[2] According to assessments by the European Commission, the lower rate of growth in real GDP can be attributed to the

[1] Goods and services, average annual percentage change in global exports and imports
[2] Source: National statistics offices: Destatis, Insee, Istat, INE

escalation of trade disputes, a below-average increase in the volume of global trade and a downturn in global economic growth. The European Commission has also identified uncertainty resulting from tariff threats, growing geopolitical tensions, lack of clarity over Brexit and the ongoing weakness of trade and industry as downwards pressures on real economic growth in 2019.[3)]

Gross domestic product at constant prices
Year-on-year change in %[1)]

	2018	2019	Average 2011 – 2018
Euro area	1.9	1.2	1.3
Germany	1.5	0.6	1.9

[1)] Table sources: Eurostat, Destatis, average calculated as the geometric mean of annual growth rates

In Germany, real GDP grew by 0.6% year-on-year in 2019, therefore not only slower than in 2018 (+1.5%), but also slower than the average for the period from 2011 to 2018 (see table 'Gross domestic product at constant prices'). Real GDP growth was boosted by domestic consumption in 2019. With a sustained increase in the number of people in employment in Germany (+0.9%), both consumer spending (+1.8%) and construction investment grew in real terms (+3.8%). Investment in equipment also increased in real terms in 2019 (+0.4%). In contrast, net exports curbed real GDP growth by 0.4 percentage points in 2019, with real export growth (+0.9%) lagging behind real import growth (+1.9%). On the output side, the decline in real gross value added in manufacturing excluding the construction sector reduced real GDP growth by 3.6% in 2019.[4)]

Business development in 2019

In KfW's Export and Project Finance business sector – for which KfW IPEX-Bank is responsible – the bank provided financing totalling EUR 22.1 billion in 2019.

In most cases, KfW IPEX-Bank acted as a partner in club or syndicate financing arrangements with other national and international banks. It generated a commitment volume of EUR 18.6 billion in its original lending business (2018: EUR 17.0 billion), with additional new commitments of around EUR 3.5 billion (2018: EUR 0.7 billion) for bank refinancing under the CIRR ship and ERP export financing schemes. KfW IPEX-Bank participates in these schemes within the framework of an agency agreement with KfW (agent acting on behalf of the Federal Republic). The volume of new commitments forecast for 2019 (EUR 16.6 billion) was thus significantly exceeded.

Of its total commitments, EUR 13.1 billion were attributable to KfW IPEX-Bank's market business, while EUR 9.0 billion constituted trust business performed on behalf of and for the account of KfW (including CIRR).

[3)] Source: Forecast by the European Commission, November 2019
[4)] Source: Destatis, specialist series 18, series 1.1, National accounts, calculation of domestic product, first annual results for 2019, January 2020

Overview of results of operations, net assets and financial position

KfW IPEX-Bank's operating income before risk provisions and valuations in the 2019 financial year was EUR 277 million. This represented an increase of EUR 19 million (+7%) on the previous year's result. After taking into account risk provisions and valuations (EUR –85 million) and additions to the fund for general banking risks established in accordance with Section 340g of the German Commercial Code (*Handelsgesetzbuch – HGB*) (EUR –7 million) for ongoing adjustments to movements in the USD exchange rate, profit from operating activities before taxes was EUR 185 million. This was down EUR 53 million (–22%) year-on-year, primarily owing to a higher risk provision result in lending business (see table on results of operations in this section).

Operating income before risk provisions and valuations amounted to EUR 277 million, with EUR 311 million relating to the bank's net interest income. Net commission income contributed a further EUR 201 million to the result. Both income components increased year-on-year. The higher net interest income reflects a rise in earnings contributions from lending business. Net commission income has benefited from an increase in earnings from processing fees in lending business. Administrative expense amounted to EUR 227 million, comprising personnel expense (EUR 97 million) and other administrative expense including depreciation and impairment on intangible assets and property, plant and equipment (EUR 130 million). The year-on-year decline was essentially due to a change in the way that the valuation effect from staff pension commitments was reported in the income statement. Pension provisions are valued using actuarial methods. A discount rate corresponding to the residual term is used in this context, calculated by the Deutsche Bundesbank as the average market rate for the last 10 financial years. The valuation effect results from the change in the discount rate compared with the previous year (effect of changes in interest rates). In the reporting year, this resulted in an allocation requirement of EUR 21 million, which was reported in other operating expense for the first time (previously administrative expense; the comparative figures have not been adjusted). The change in the way that figures are reported in the income statement has helped to provide a better picture of the bank's results of operations. As well as the valuation effect described above, other operating income and expenses (EUR –8 million) included, in particular, income from foreign currency valuation and from the reversal of provisions no longer required. KfW IPEX-Bank contributes to a fund for general banking risks, which serves to strengthen its tier 1 capital. The fund also helps to stabilise solvency ratios against exchange rate fluctuations resulting from the portion of the loan portfolio denominated in US dollars. Appropriations to the fund for general banking risks pursuant to Section 340g of the German Commercial Code, which appear as a separate item in the income statement, are included in the bank's foreign exchange result.

Risk provisions and valuations (EUR –85 million) comprise the risk provision result in lending business (EUR –72 million) and valuations from securities and investments (EUR –13 million). Overall, this item increased by EUR 80 million (> 100%) year-on-year.

This leaves operating income before taxes of EUR 192 million. After deducting appropriations to the fund for general banking risks in accordance with Section 340g of the German Commercial Code owing to changes in exchange rates (EUR –7 million), profit from operating activities before taxes was EUR 185 million. Owing to the corporate income tax (CIT) fiscal unity that exists between KfW IPEX-Bank and KfW Beteiligungsholding GmbH, taxes on income are generally incurred at the level of KfW Beteiligungsholding GmbH as the controlling company (wholly-owned subsidiary of KfW and sole shareholder of KfW IPEX-Bank). Only income tax expense expense for the branch office in London (< EUR 1 million) remains in KfW IPEX-Bank. The item 'Profit transferred due to a profit pooling, profit transfer or partial profit transfer agreement' includes KfW's profit share for the silent partner contribution (EUR 19 million) and the annual profit of KfW IPEX-Bank (EUR 166 million). The latter was transferred in full to the controlling company on the basis of the profit transfer agreement concluded in the context of the CIT fiscal unity. According to the transfer provisions in the agreement, the transfer obligation arises at the close of the financial year. KfW IPEX-Bank has therefore reported a 'zero result' as of 31 December 2019 and an other liability in the profit amount to be transferred to KfW Beteiligungsholding GmbH. The profit was transferred to KfW Beteiligungsholding GmbH once the annual financial statements had been approved by the general shareholders' meeting in March 2020.

Total assets were EUR 26.0 billion, a year-on-year decrease of EUR 1.3 billion (–5%). Loans and advances to banks and customers accounted for EUR 25.0 billion (96%) of this. This item thus remained at the same level as the previous year. EUR 24.8 billion of this sum related to the bank's lending business. It also includes EUR 0.2 billion of investments in the form of call money and term borrowings. New transactions in market business came to EUR 13.1 billion, EUR 3.3 billion (+33%) higher than the target. This led to an increase in total assets in the amount of the disbursements made. There were compensatory effects from measures taken to optimise the portfolio in the last financial year and associated sales of portfolio loans on the secondary market. EUR 10.9 billion of the credit portfolio (44%) is denominated in US dollars. Of the item 'Bonds and other fixed-income securities' (EUR 0.5 billion), EUR 0.4 billion relates to KfW securities. KfW IPEX-Bank holds this portfolio of liquid assets in order to satisfy the regulatory liquidity coverage ratio (LCR). This portfolio was reduced by EUR 1.1 billion (–74%) during the last financial year. At the same time, the bank increased its undrawn credit line with KfW by EUR 2.3 billion to a total of EUR 3.7 billion. The decline in total assets was accompanied by a reduction in liabilities to banks and customers by a total of EUR 1.0 billion (–5%) to EUR 20.7 billion. EUR 20.5 billion of this item is attributable to ongoing funding from KfW in the form of promissory note loans, call money and term borrowings. It also includes borrowings via the issuance of registered Public Pfandbriefe, with KfW as the sole investor. Equity was EUR 4.1 billion on the balance sheet date, a year-on-year increase of EUR 0.1 billion. This was entirely due to the partial reinvestment, to the extent permitted for tax purposes, in the bank's capital reserve of the 2018 profits transferred to KfW Beteiligungsholding GmbH under the profit transfer agreement.

The volume of business (EUR 37.1 billion), which includes financial guarantees and irrevocable loan commitments as well as total assets, decreased by EUR 0.2 billion year-on-year. The reported decline in total assets was partially offset by an increase of EUR 0.7 billion (+9%) in irrevocable loan commitments. This reflects the trend of loan commitments in market business, which, at EUR 13.1 billion, were EUR 3.3 billion (+33%) above the bank's forecast. Financial guarantees also exceeded the previous year's figure by EUR 0.4 billion (+23%) and helped to partially offset the decline in total assets.

The bank's regulatory own funds totalled EUR 4.5 billion as of 31 December 2019. On this basis, the capital ratios were as follows: total capital ratio = 25.17% (previous year: 24.25%), tier 1 capital ratio = 20.69% (previous year: 20.34%) and CET1 capital ratio = 19.02% (previous year: 18.12%). The tier 1 capital ratio thus exceeds the forecast from the previous year (19.70%).

The bank continues to be supervised by the German Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht – BaFin*) in cooperation with the Deutsche Bundesbank.

Results of operations

	1 Jan. – 31 Dec. 2019	1 Jan. – 31 Dec. 2018	Change	
	EUR in millions	EUR in millions	EUR in millions	%
Net interest income[1]	311	292	19	7
Net commission income	201	168	33	20
General administrative expense	–227	–244	–17	–7
Other operating income and expenses	–8	42	–50	< –100
Operating income before risk provisions/valuations	**277**	**258**	**19**	**7**
Valuations from securities and investments	–13	–18	–5	–28
Risk provision result in lending business	–72	13	85	> 100
Risk provisions and valuations, total	**–85**	**–5**	**80**	**> 100**
Operating income before taxes	**192**	**253**	**–61**	**–24**
Withdrawals from/additions to the fund for general banking risks as per Section 340g of the German Commercial Code (HGB)	–7	–15	8	53
Profit/loss from operating activities before taxes	**185**	**238**	**–53**	**–22**
Taxes on income	0	0	0	–
Profit transferred due to a profit pooling, profit transfer or partial profit transfer agreement	–185	–238	–53	–22
Net income for the year	**0**	**0**	**0**	**–**

[1] Including current income from investments

Operating income before risk provisions and valuations was EUR 277 million, an increase of EUR 19 million (+7%). Along with net interest income and net commission income (EUR 512 million in total), this includes administrative expense (EUR 227 million) and other operating income and expenses (EUR –8 million). The result from risk provisions and valuations (EUR –85 million) comprises valuations from securities and investments (EUR –13 million) and the risk provision result in lending business (EUR –72 million). After deducting appropriations to the fund for general banking risks (EUR –7 million) to adjust for the appreciation of the US dollar compared with 31 December 2018, profit from operating activities before taxes came to EUR 185 million. This was down EUR 53 million (–22%) compared with 2018, primarily owing to higher risk provisioning requirements in lending business.

In relation to the forecast for earnings before tax provided in 2018 as part of group business sector planning for the 2019 financial year (EUR 138 million), expectations were exceeded by EUR 48 million (+34%).

Net interest income and net commission income

KfW IPEX-Bank generated total net interest income and net commission income of EUR 512 million in the reporting year. This amount comprised net interest income of EUR 311 million and net commission income of EUR 201 million. Total contribution to earnings increased by EUR 52 million (+11%) year-on-year.

Net interest income of EUR 311 million comprises interest income including income from investments totalling EUR 850 million, of which EUR 823 million relates to interest income in connection with the bank's lending business and money market transactions. It also includes interest-like income in the form of commitment fees for loans not yet disbursed of EUR 29 million. Overall, bonds and other fixed-income securities made a negative contribution to earnings (EUR –1 million) due to the sustained period of low interest rates. EUR 0.4 billion (80%) of this balance sheet item is attributable to the portfolio of high quality and highly liquid assets consisting of KfW securities, which is held in order to satisfy the regulatory liquidity coverage ratio (LCR). Interest income is offset by interest expenses amounting to EUR 539 million, most of which is attributable to ongoing funding of the bank (EUR 457 million). There are additional expenses from interest rate, foreign exchange and cross-currency swaps (EUR 62 million) and for a subordinated loan granted by KfW (EUR 12 million). KfW IPEX-Bank terminated this loan early and repaid it as of 30 August 2019 with the permission of BaFin.

Net commission income came to EUR 201 million and comprised commission income of EUR 203 million and commission expense of EUR 3 million. Income mainly includes remuneration paid by KfW to KfW IPEX-Bank for administering the E&P trust business (EUR 111 million). The amount of the commission-based fee is calculated based on the volume of lending handled, subject to a minimum level to cover costs and a cap. The item also includes commission income from processing fees in the market business (EUR 69 million) and guarantee commissions (EUR 24 million). Commission expense amounted to EUR 3 million, of which EUR 2 million resulted primarily from fees for guarantees received in connection with the lending business.

Administrative expense

Administrative expense amounted to EUR 227 million, comprising personnel expense of EUR 97 million and non-personnel expense of EUR 130 million as the total of other administrative expenses including amortisation on intangible assets. This represented a reduction of EUR 17 million (–7%) on the previous year. Also taking into account the expense owing to the effect of changes in interest rates arising from staff pension commitments (EUR 21 million), which was reported under other operating expense for the first time as of 31 December 2019 (previously personnel expense), administrative expense is up EUR 3 million (+1%) year-on-year.

The bulk of personnel expense (EUR 83 million) related to expenditure for wages and salaries for the bank's employees. Current personnel expense also includes salaries for the 35 employees of the representative offices and a further EUR 14 million for social insurance contributions, pensions and other employee benefits. Of the latter figure, EUR 9 million relate to the employer's share of social insurance contributions and EUR 5 million to expenses for appropriations to provisions for pension commitments. Also taking into account the effect of changes in interest rates, expenses for pension commitments total EUR 26 million.

The largest item under other administrative expense was expenses for general services and project services provided by KfW (EUR 95 million or 73%). The bank also purchased other services (EUR 23 million) from entities outside the Group. Expenses for services used accounted for EUR 64 million of this sum in total. Office operating costs represented a further EUR 28 million and occupancy costs EUR 13 million. Other administrative expense also included the EU bank levy of EUR 12 million for 2019.

Administrative expense

	2019 EUR in millions	2018 EUR in millions	Change EUR in millions
Wages and salaries	83	76	7
Social insurance contributions	9	8	1
Expense for pension provisions and other employee benefits	5	26	–21
Personnel expense	**97**	**110**	**–13**
Non-personnel expense	**130**	**134**	**–4**
Administrative expense	**227**	**244**	**–17**

The cost/income ratio[5)] for the reporting year was 50.2% and was thus lower than the predicted figure (52.8%). Both the administrative expense and higher-than-expected net interest income and net commission income contributed to this positive development.

Other operating income and expenses

Under other operating income and expenses (EUR –8 million), the largest item was the effect of changes in interest rates arising from provisions for staff pensions (EUR –21 million). This was partially offset by the bank's positive foreign exchange result (EUR +7 million), which was primarily influenced by the appreciation of the US dollar during the past financial year. Taking into account the counter effect of the appropriation to the fund for general banking risks in accordance with Section 340g of the German Commercial Code in order to adjust it to movements in the USD exchange rate (EUR –7 million), the bank's foreign exchange result has largely been offset. In addition, other operating income includes income from the reversal of provisions (EUR +6 million). This also includes the reversal of the remaining amount (EUR 2 million) of a provision recognised in the 2017 financial year based on rulings by the German Federal Court of Justice (*Bundesgerichtshof – BGH*), which had ruled that certain processing fees contained in loan agreements are invalid. This provision had been recognised in order to cover any repayment obligations to borrowers. No claims for repayment were received by the bank.

Risk provisions and valuations

The result from risk provisions and valuations came to EUR –85 million in total and comprised the risk provision result in lending business (EUR –72 million) and valuations from securities and investments (EUR –13 million). Overall, this item increased by EUR 80 million (> 100%) year-on-year.

EUR –10 million of the valuations from securities and investments (EUR –13 million) are mostly attributable to write-downs on fund investments of KfW IPEX-Bank.

Overall, valuations from securities and investments were down EUR 5 million on the actual figure for the previous year.

In contrast, the risk provision result in lending business was up EUR 85 million year-on-year, at EUR –72 million. The need for additional risk provisioning was driven by individual NPLs in the Maritime Industries and Basic Industries sector departments.

5) Administrative expense plus effect of changes in interest rates from pension commitments in relation to total net interest income and net commission income plus profit share for the silent partner contribution (before deduction of risk costs)

Developments in risk provisioning in the 2019 financial year were also influenced by the utilisation of risk provisions that were recognised in previous years. This was linked to the liquidation and/or restructuring of loans in the Maritime Industries and Power, Renewables and Water sector departments. In terms of risk provisions for its lending business, KfW IPEX-Bank makes a distinction between specific loan loss provisions for acute risks and portfolio loan loss provisions for loans for which no specific loan loss provisions have been recorded. The bank recognises portfolio loan loss provisions for foreseeable but not yet individually substantiated counterparty default risks in the lending business in the amount of the expected 12-month loss or, if there is a significant deterioration in default risk in comparison to the date of initial recognition, in the amount of the credit loss expected over the residual term of the exposure.

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

Net income for the year

Owing to the CIT fiscal unity that exists between KfW Beteiligungsholding GmbH and KfW IPEX-Bank and the profit transfer agreement concluded in connection with this, taxes on income are generally incurred at the level of KfW Beteiligungsholding GmbH. Income tax expense for the branch office in London (< EUR 1 million) continues to be recognised in KfW IPEX-Bank. The income statement item ‘Profit transferred due to a profit pooling, profit transfer or partial profit transfer agreement’ includes the profit share for the silent partner contribution (EUR 19 million) as well as the annual profit of KfW IPEX-Bank (EUR 166 million). The latter is recognised in income as a liability to KfW Beteiligungsholding GmbH as the controlling company on the basis of the profit transfer agreement as of 31 December 2019 (Other liabilities). Accordingly, KfW IPEX-Bank reported net income of EUR 0 million for the year. The profit was transferred to the controlling company once the annual financial statements had been approved by the general shareholders’ meeting in March 2020.

Net assets

Volume of lending for own account

As of 31 December 2019, KfW IPEX-Bank managed a volume of lending for own account of EUR 36.2 billion. As well as on-balance sheet loans and advances to banks and customers (EUR 25.0 billion), this includes irrevocable loan commitments (EUR 9.1 billion) and financial guarantees (EUR 2.0 billion), both reported off-balance sheet. The volume of lending increased by EUR 1.1 billion (+3%) year-on-year. While on-balance sheet lending business remained at the same level as in the previous year, the increase in the item as a whole was due to the growth of off-balance sheet items. Irrevocable loan commitments increased by EUR 0.7 billion (+9%), while financial guarantees were up by EUR 0.4 billion (+23%). Within the balance sheet, contrasting effects from loan disbursements/repayments and sales of portfolio loans on the secondary market (portfolio optimisation) offset each other. The Power, Renewables and Water, Aviation, Mobility & Transport, and Industries and Services sector departments accounted for the largest share of on-balance sheet lending volume, amounting to a total of EUR 14.3 billion (58%). The development of new business is reflected in irrevocable loan commitments. During the past year, KfW IPEX-Bank issued new commitments in the Export and Project Finance business sector with a total volume of EUR 18.6 billion in its original lending business. EUR 13.1 billion of this related to market business, while EUR 5.5 billion related to trust business administered by the bank on behalf of and for the account of KfW. In addition, there were new commitments of EUR 3.5 billion for bank refinancing under the CIRR ship and ERP export financing programmes. KfW IPEX-Bank participates in these schemes within the framework of an agency agreement with KfW (agent acting on behalf of the Federal Republic). In total, the volume of new commitments came to EUR 22.1 billion, up EUR 4.3 billion (+25%) year-on-year. The new business volume forecast for 2019 was exceeded by EUR 5.5 billion (+33%).

Loans for own account by sector department

Sector department	31 Dec. 2019 EUR in millions	31 Dec. 2018 EUR in millions	Change EUR in millions
Power, Renewables and Water	5,493	5,557	–64
Aviation, Mobility & Transport	4,487	4,806	–319
Industries and Services	4,362	4,004	358
Maritime Industries	3,666	3,747	–81
Basic Industries	2,963	2,808	155
Infrastructure	2,257	1,946	311
Financial Institutions, Trade and Commodity Finance	1,692	2,161	–469
Equity Portfolio	20	21	–1
	24,940	**25,050**	**–110**
Other positions[1)]	104	35	69
Loans and advances to banks and customers	**25,044**	**25,085**	**–41**
Financial guarantees[2)]	**1,976**	**1,607**	**369**
Irrevocable loan commitments[2)]	**9,150**	**8,423**	**727**
Total	**36,170**	**35,115**	**1,055**

1) Mainly includes short-term deposits, ancillary loan receivables and general risk provisions reduced on the assets side
2) Please refer to the Notes for a breakdown by sector department.

Development of other major balance sheet assets
Of the bonds and other fixed-income securities (EUR 0.5 billion), EUR 0.4 billion related to a portfolio of liquid assets consisting of KfW securities held by KfW IPEX-Bank in order to satisfy the regulatory liquidity coverage ratio (LCR). The securities are classified as current assets and are valued strictly at the lower of cost or market. The bank reduced this portfolio by EUR 1.1 billion (–74%) during the 2019 financial year.

Assets held in trust (EUR 373 million), which are recognised in the balance sheet, include lending business that KfW IPEX-Bank administers on a trust basis for third parties.

Prepaid expenses and deferred charges (EUR 34 million) include premiums from receivables purchases (EUR 21 million), which are amortised in net interest income over the tenor of the loans. This item also includes upfront interest payments from swaps (EUR 13 million).

Investments (EUR 27 million) mainly include the bank's fund investments that are denominated in US dollars (EUR 26 million).

The largest item under Other assets (EUR 23 million) is loans and advances to group entities (EUR 13 million).

Financial position

Funding
In connection with the reduction in total assets, KfW IPEX-Bank reduced its liabilities to banks by EUR 0.9 billion (–4%) year-on-year to EUR 20.5 billion. Almost all of this balance sheet item (EUR 20.5 billion) is attributable to ongoing funding from KfW. KfW IPEX-Bank has concluded a corresponding refinancing agreement with KfW, on the basis of which the parent company provides the necessary funds at market-based terms. Funding is provided in the currencies and for the tenors required for refinancing the lending business. The funding mix comprises conventional money market and capital market products. The bank covers its medium and long-term funding requirements mostly through promissory note loans (EUR 17.6 billion). It also borrows funds through the issuance of registered Public Pfandbriefe (EUR 1.0 billion), which are acquired exclusively by KfW. In addition, call money and term borrowings (EUR 1.8 billion) are used as part of short and medium-term borrowing.

Liabilities to customers (EUR 110 million) include cash collateral (EUR 72 million) that the bank has received in connection with the lending business, and deposit business with third parties in the form of money market transactions (EUR 20 million).

Structure and development of funding

	31 Dec. 2019 EUR in millions	31 Dec. 2018 EUR in millions	Change EUR in millions
Liabilities to banks			
Current account (KfW)	23	22	1
Call money and term borrowings (KfW)	1,785	2,379	–594
Promissory note loans and other long-term borrowings (KfW)	18,571	18,894	–323
Interest payable (KfW)	76	84	–8
KfW total	**20,455**	**21,379**	**–924**
Other	87	105	–18
	20,542	**21,484**	**–942**
Liabilities to customers			
Other creditors[1)]	110	195	–85
Total	**20,652**	**21,679**	**–1,027**

[1)] Mainly liabilities from term borrowings and cash collateral from the lending business

To cover the bank's funding and liquidity requirements, the aforementioned refinancing agreement with KfW is supplemented by an additional credit line of EUR 3.7 billion granted by the parent company. The bank also holds a portfolio of liquid bonds comprising KfW securities (EUR 0.4 billion) and liquid assets in the form of short-term investments with KfW (EUR 0.2 billion). Further details on the liquidity situation are contained in the Risk Report.

Equity, subordinated liabilities and fund for general banking risks in accordance with Section 340g of the German Commercial Code (HGB)

	31 Dec. 2019		31 Dec. 2018	Change
	EUR in millions	EUR in millions	EUR in millions	EUR in millions
Equity		4,079	3,930	149
Subscribed capital	*2,100*		*2,100*	*0*
Capital reserve	*1,554*		*1,405*	*149*
Retained earnings	*425*		*425*	*0*
Fund for general banking risks as per Section 340g of the German Commercial Code (HGB)		346	339	7
Subordinated liabilities		0	437	–437
Total		**4,425**	**4,706**	**–281**

Equity on the balance sheet rose by EUR 0.1 billion year-on-year to EUR 4.1 billion. Subscribed capital consists of share capital and a silent partner contribution from KfW for which there is no contractual maturity date. The capital reserve increased by EUR 0.1 billion in comparison to the previous year. This resulted from the partial reinvestment, to the extent permitted for tax purposes, of the 2018 profit transferred to KfW Beteiligungsholding GmbH. As part of the capital planning process, which uses projections spanning several years, capital shortages are identified and measures are recommended where necessary to strengthen the bank's capital. This is used as a basis for making decisions on whether, for example, the bank's capital basis should be strengthened through partial reinvestment of transferred profits (more details on the internal capital adequacy assessment process are contained in the Risk Report).

KfW IPEX-Bank contributes to a fund for general banking risks in accordance with Section 340g of the German Commercial Code (HGB) in order to strengthen its regulatory tier 1 capital and stabilise its solvency ratios against fluctuations in the USD exchange rate. The appreciation of the US dollar (+2%) compared with the 2018 year-end rate led to appropriations of EUR 7 million in 2019. These are reported in a separate item on the income statement and relate to the bank's foreign exchange results.

Subordinated liabilities in the form of a subordinated loan granted by KfW were repaid in full in 2019. KfW IPEX-Bank terminated the last tranche of the loan (USD 500 million) early with the permission of BaFin and repaid it to the creditor on 30 August 2019.

Development of other material items of liabilities and equity

Provisions totalled EUR 278 million, representing a year-on-year increase of EUR 33 million (+14%). EUR 211 million of this item related to provisions for staff pension commitments (pensions and deferred compensation). These were up EUR 31 million (+17%) year-on-year and drove the change in the overall figure. The sustained period of low interest rates contributed once again to an increase in provision requirements in 2019, owing to the valuation of provisions with a residual term of more than one year at the average market interest rate for the last ten years (Section 253 (2) of the German Commercial Code). Other provisions (EUR 63 million) include, in particular, liabilities to staff of the bank (EUR 26 million) and provisions for credit risks (EUR 20 million).

KfW IPEX-Bank's liability to KfW Beteiligungsholding GmbH under the profit transfer agreement (EUR 166 million) is reported under Other liabilities (EUR 256 million). This item also includes the balancing item for foreign currency translation (EUR 60 million) and the liability from KfW's profit share for the silent partner contribution (EUR 19 million).

Off-balance sheet financial instruments

The bank performs derivative transactions in order to hedge interest and exchange rate risks. The nominal volume of derivatives on the reporting date totalled EUR 31.6 billion, of which EUR 26.5 billion (84%) related to interest rate swaps. A further EUR 3.9 billion (12%) related to foreign exchange (FX) swaps and EUR 1.1 billion (3%) to cross-currency swaps. The derivatives volume increased by a total of EUR 1.1 billion (+3%) year-on-year.

Summary

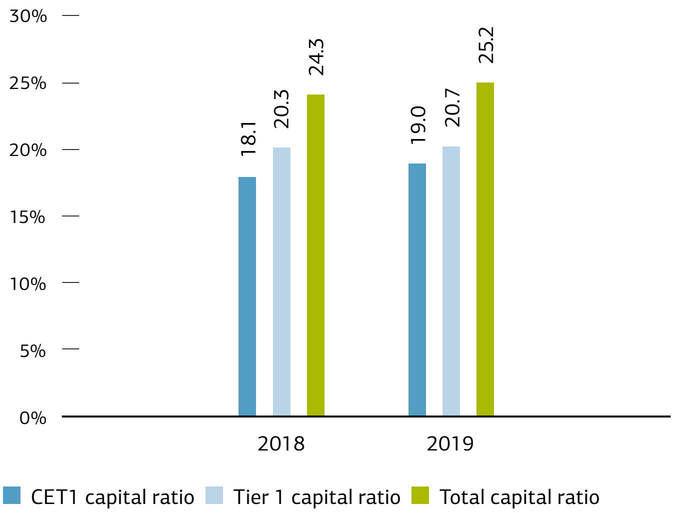
KfW IPEX-Bank issued new commitments (including CIRR) with a total volume of EUR 22.1 billion in the past financial year, marking an increase of EUR 4.3 billion (+25%) year-on-year. The bank exceeded the new business volume forecast for 2019 by EUR 5.5 billion (+33%).

Operating income before risk provisions and valuations (EUR 277 million) was also up by EUR 19 million (+7%) compared with the previous year. The result from risk provisions and valuations (EUR –85 million) was influenced by the need for additional acute risk provisioning owing to individual NPLs. This item was up by EUR 80 million (> 100%) year-on-year, but overall was in line with forecasts. Profit from operating activities before taxes came to EUR 185 million, down EUR 53 million (–22%) year-on-year, largely due to additional risk provisioning requirements. However, it was EUR 48 million (+34%) higher than the result forecast in the group business sector planning for 2019. KfW IPEX-Bank transferred its annual profit (EUR 166 million) to KfW Beteiligungsholding GmbH as the controlling company on the basis of the CIT fiscal unity after the annual financial statements had been approved by the general shareholders' meeting in March 2020.

Risk Report

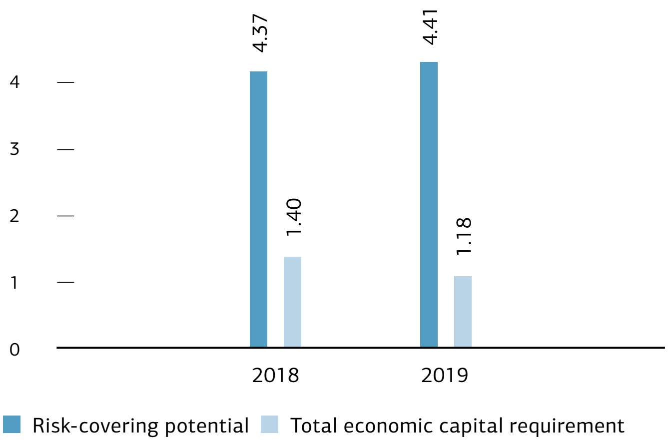
Overview of key indicators and developments
Risk reporting is performed in accordance with KfW IPEX-Bank GmbH's internal risk management system. Selected risk indicators are presented below:

Regulatory capital requirements



Capital ratios increased, with regulatory capital requirements remaining at the same level as in the previous year and higher regulatory own funds owing to the reinvestment of most of the profit transferred for 2018.

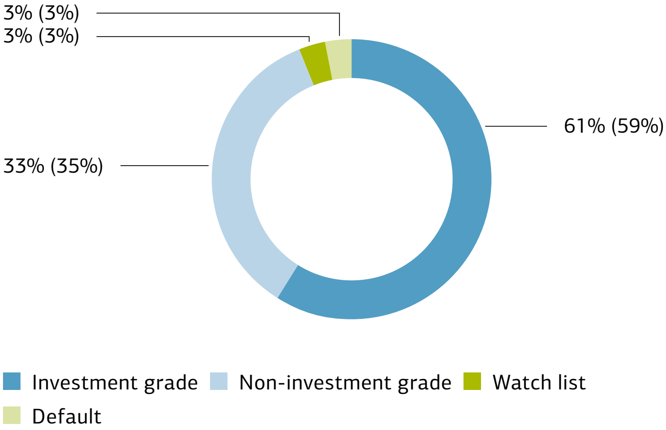
Economic risk-bearing capacity
in EUR billions



Economic risk-bearing capacity comfortably meets the 99.90% solvency target (previous year: 99.96%). Excess cover in risk-bearing capacity increased year-on-year, in particular owing to the lower solvency level, which led to a reduction in total economic capital requirements. Economic risk-covering potential increased, mainly owing to the aforementioned reinvestment of most of the profit transferred for 2018.

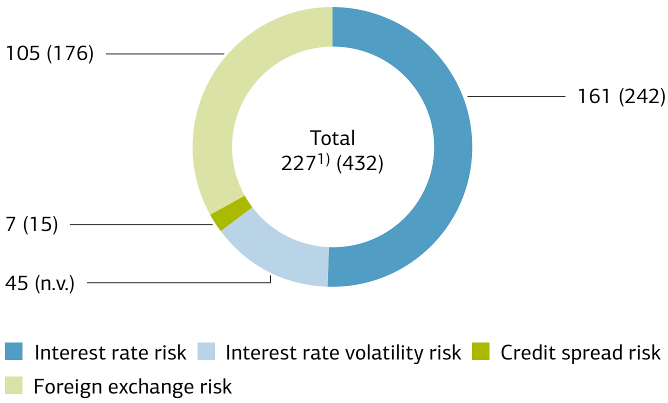
Credit risk

2019 (2018), Breakdown of net exposure



Market price risks

2019 (2018), ECAP EUR in millions



[1] Incl. diversification

The proportion of investment grade exposures in the portfolio rose to 61% owing to rating upgrades in particular, while the proportion of non-investment grade exposures fell to 33%. The proportion of watch list and NPL exposures remained stable year-on-year.

Within market price risks, interest rate risks have the largest risk value. The reduction in ECAP requirements for market price risks compared with the previous year was mainly due to new risk methods from a new risk system introduced as of 31 March 2019 and to the reduction in the solvency level from 99.96% to 99.90%. ECAP is calculated from the total risk value for market price risks, taking into account diversification effects between subtypes of risk. As of 31 December 2019, this diversification effect amounted to EUR 91 million.

Significant developments and outlook

KfW IPEX-Bank continued to develop its processes and instruments for risk management and control in the 2019 financial year, giving due consideration to current banking supervisory requirements. The risk inventory for defining material risks was switched to a method with a more quantitative focus, in which a materiality threshold of 1% of risk-covering potential is the primary factor in determining materiality. Measures were also taken to implement the new guidelines on risk-bearing capacity concepts. In this context, the solvency level for economic risk-bearing capacity was adjusted from 99.96% to 99.90% as of 31 December 2019. Measurement and management of market price and liquidity risks was converted to the new risk software, Ambit Focus, in March.

Furthermore, the establishment of an Internal Governance Board (IG Board) created a forum in which the heads of the Compliance, Risk Controlling, Organisation and Internal Auditing units regularly discuss their activities and associated regulatory developments. KfW IPEX-Bank also examined and assessed transitory climate risks in its portfolio. The aim is to incorporate these findings into the risk management process.

General conditions of risk management and control

KfW IPEX-Bank undertakes credit risks in its business activities in order to generate earnings. Ensuring the bank's capital adequacy and liquidity at all times is the basis for its risk management, which is an integral part of the bank's integrated risk-return management. The financial holding group, which, besides KfW IPEX-Bank, also consists of KfW Beteiligungsholding GmbH, is dominated to a large extent by KfW IPEX-Bank. As a result, material risks arise at the level of KfW IPEX-Bank.

Business and risk strategy

KfW IPEX-Bank's strategic business objectives are to support the German and European economies on a sustainable basis and to increase the bank's profitability. To achieve these strategic aims, KfW IPEX-Bank is continuously developing its structuring expertise and intensifying collaboration with other banks. First and foremost, these measures are intended to address the challenges to the economy posed by climate change, the environment and globalisation. The bank's business activities focus on providing medium and long-term financing to support key industrial sectors in the export economy, improving economic and social infrastructure, financing environmental and climate protection projects and securing Europe's supply of raw materials.

Based on its business model and business strategy, the following risk types are of significance to KfW IPEX-Bank:

- Credit risk
- Market price risks (foreign exchange risk, interest rate risk, interest rate volatility risk)
- Operational risk, in particular service provider risk (including outsourcing risk), information security risk, physical security risk, legal risk and compliance risk
- Liquidity risk
- Concentration risk
- Regulatory risk

Credit risk (particularly counterparty default risk and migration risk) is the most important risk type for KfW IPEX-Bank, followed by market price risks (in the form of foreign exchange risk, interest rate risk and interest rate volatility risk) and operational risk. Liquidity risks, concentration risks and regulatory risks play a smaller role in the bank's overall risk position.

KfW IPEX-Bank's Management Board has defined a risk strategy that sets out the principles of the bank's risk policy and risk appetite, and thus the framework for undertaking and controlling risks. The risk strategy aims to ensure that the bank has adequate capital and liquidity and that material risks are limited. The risk strategy also takes into account its compatibility with the general risk policy framework within KfW Group. KfW IPEX-Bank's membership of KfW Group and its orientation as a non-trading book institution play a crucial role in determining the bank's risk culture. The written procedural rules on KfW IPEX-Bank's risk culture are based on the Financial Stability Board's four elements of the risk culture: 'management culture', 'employee responsibility', 'open communication and critical dialogue' and 'appropriate incentive structures'. All employees of KfW IPEX-Bank are encouraged to engage with the risk culture in various formats, for example in the form of training courses.

Organisation of risk functions

The Management Board represents the highest decision-making body with responsibility for risk control and monitoring. As such, it is responsible above all for defining the risk strategy, risk standards and risk assessment methods. KfW IPEX-Bank's risk functions comprise the departments Credit Risk Management I & II, Restructuring and Collateral Management and Risk Controlling. These are all separate from the front-office areas up to the level of the Management Board. The aim is to ensure that functions are separated between the front office and back office at all levels of the organisational structure, as required by the German Minimum Requirements for Risk Management (MaRisk).

The departments Credit Risk Management I & II are each responsible for approval and analysis. Approval activities in each case include providing a second vote when loan submission documents are assessed, while taking risk aspects into account and adhering to the principle of separating front-office and back-office functions. They also include identifying and evaluating risks in the portfolio at an early stage and determining measures to reduce these risks, as well as reviewing and approving ratings assigned to new and existing project financing transactions. The analysis teams are responsible for conducting regular analyses and ratings of corporate and asset financing for both new and existing transactions, as well as producing sector analyses.

The Restructuring and Collateral Management department is responsible for loan restructuring and collateral management. Restructuring activities comprise problem loan processing and, in some cases, intensified management of exposures. The Collateral Management team is responsible for the proper provision and valuation of all collateral. It monitors the eligibility of collateral when determining risk indicators and, in this context, continuously monitors development of the value of collateral.

The Risk Controlling department is responsible for specialist supervision of the tools used (rating, pricing), validating valuation procedures for security in rem and specialist monitoring of risk functions outsourced to KfW, including risk reporting. It is also responsible for portfolio management, operational limit management, operational risks and business continuity management.

KfW IPEX-Bank has outsourced a number of risk control functions and activities to KfW. These include validation and development of the rating methodology for counterparty default risks, and the methodology and control procedures related to market price risks, liquidity risks and operational risks. Maintenance and further development of the limit management system, determination of risk-bearing capacity including stress tests, and risk reporting for KfW IPEX-Bank have also been outsourced to KfW. The outsourced functions and activities are governed by service level agreements between KfW IPEX-Bank and KfW. Monitoring of outsourced functions is intended to ensure that KfW IPEX-Bank also fulfils its responsibility for the functions outsourced to KfW in accordance with Section 25b of the German Banking Act (*Kreditwesengesetz – KWG*).

The Internal Auditing department analyses the adequacy and effectiveness of the risk management system independently of processes and reports directly to the Management Board. It should thus make an important contribution to ensuring the effectiveness of the internal control system. Audits are planned and performed using a risk-based approach.

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

Internal capital adequacy assessment process

KfW IPEX-Bank's internal capital adequacy assessment process (ICAAP) takes two perspectives into account.

The main focus of the normative perspective in the ICAAP is the institution's ability to continue as a going concern. To this end, fulfilment of Pillar I regulatory capital requirements under the Capital Requirements Regulation (CRR) and the German Banking Act is to be ensured on an ongoing basis, also taking a longer-term view (normative capital planning). As well as a baseline scenario, various adverse scenarios are also analysed. In particular, the adverse scenarios also take into account the potential impact of risks that do not explicitly have to be backed by capital under Pillar I. Changes in the large exposure limit and the leverage ratio are monitored as additional structural requirements for capital. The aim is to identify any capital shortages at an early stage.

The economic perspective in the ICAAP serves to protect creditors against losses from an economic viewpoint. In this perspective, the capital available on a specific date (risk-covering potential) is compared with the risk assumed as of that date (economic capital requirement or ECAP for all material risks on the capital side). The structure of both the capital side and the risk side is geared towards present values and is static, i.e. new business and expected results are not recognised. The risk-covering potential is based on regulatory own funds adjusted for items with no economic value and accumulated profits. The amount of the economic capital requirement, and thus the level of security in the risk-bearing capacity, are determined to a large extent by the solvency level for risk measurement. The solvency level was reduced compared with the previous year from 99.96% to 99.90%, in line with the remarks on the solvency level in the revised banking supervisory guidelines on risk-bearing capacity. By adjusting risk tolerances in the risk strategy, the aim is to ensure a high level of security in the risk-bearing capacity.

Regular forecasts are not made for economic risk-bearing capacity. If required, however, an indicative forecast of the economic risk-bearing capacity will be provided, if a questionnaire has identified future developments that could have a material impact on the risk-bearing capacity.

Both ICAAP perspectives include regular stress tests in the form of simulations of adverse general economic conditions (downturn and stress scenarios). A traffic light system with thresholds for normative and economic risk-bearing capacity has been established in this context. When critical developments arise, this system indicates that operational or strategic control measures need to be taken.

As of 31 December 2019, the risk-bearing capacity is adequate in both the normative and the economic perspective.

Normative perspective:
Key regulatory figures (pursuant to advanced IRBA)

	31 Dec. 2019	31 Dec. 2018
	EUR in millions	**EUR in millions**
Total risk exposure in accordance with Art. 92 CRR	**17,939**	**18,027**
Regulatory own funds	4,516	4,372
of which: – CET1 capital	3,412	3,267
– Additional tier 1 capital	300	400
– Tier 2 capital	803	705
CET1 capital ratio	19.0%	18.1%
Tier 1 capital ratio	20.7%	20.3%
Total capital ratio	**25.2%**	**24.3%**

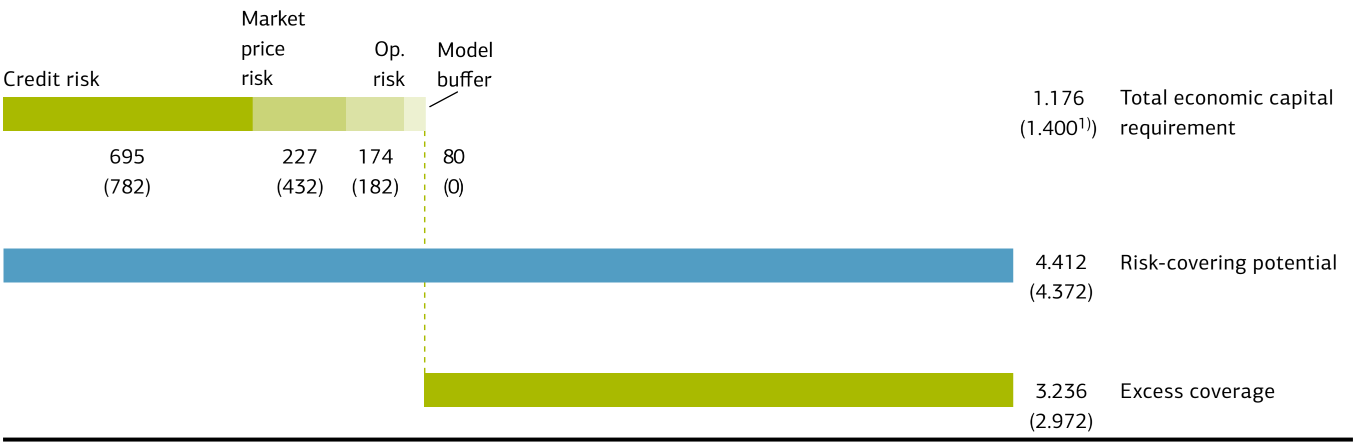
As the overall risk amount remained at the same level as in the previous year and regulatory own funds increased (mainly owing to the reinvestment of most of the profit transferred for 2018 from KfW IPEX-Bank to KfW Beteiligungsholding GmbH), the capital ratios increased. The requirements for minimum capital ratios have been met for both the CET1 capital ratio and the total capital ratio as of 31 December 2019.

Economic perspective

As of 31 December 2019, excess risk-covering potential above total economic capital requirements had increased from EUR 2,972 million at the end of 2018 to EUR 3,236 million. This increase was mainly due to the reduction in the solvency level from 99.96% to 99.90% and the associated reduction in total economic capital requirements. A model buffer was introduced in order to take into account any weaknesses identified in the model for total economic capital requirements. Economic risk-covering potential increased, largely as a result of the reinvestment of most of the profit for 2018 that was transferred to KfW Beteiligungsholding GmbH. This increase was counteracted by the fact that, based on the new definition of economic risk-covering potential, parts of the tier 2 capital resulting in particular from the valuation excess in regulatory own funds are no longer eligible for inclusion.

Economic risk-bearing capacity as of 31 December 2019

EUR in millions



In brackets: figures as of 31 December 2018, solvency level 99.96%

[1] Incl. hidden charges in the amount of EUR 3 million

Stress tests and test scenarios

In addition to economic scenarios used in the capital adequacy assessment process, further stress tests are performed on a regular basis, taking concentration risks into account, and are used to examine the resilience of KfW IPEX-Bank's economic and normative risk-bearing capacity. In addition to sensitivity analyses and general stress tests (in accordance with Article 177 of the CRR and other regulations), the latest potential macroeconomic risks are used as a basis for variable scenario stress tests. In 2019, these tests focused on scenarios involving a crisis of confidence in the EU, slackening economic momentum in China, an Iranian/Middle East crisis and a possible further slowdown in the global economy. Concentration and inverse stress tests are also used to show how KfW IPEX-Bank's risk-bearing capacity could be pushed to its limits. The potential effects of planned regulatory reforms in the context of the finalisation of Basel III on KfW IPEX-Bank's capital ratios were also examined in 2019.

Credit risks

Lending is the core business of KfW IPEX-Bank. An important focus of overall risk management therefore lies in controlling and monitoring risks in the lending business. In particular, credit risks include counterparty default risk, which essentially comprises the risk subcategories of credit risk in the narrower sense, counterparty risk, securities risk, country risk, risk arising from foreign currency loans extended to unsecured borrowers, special financing risk and shadow banking risk. Migration risks (or credit rating risks) also have a significant effect on credit risk exposure. In the calculation of risk-bearing capacity, migration risks are measured at the reporting date as part of the credit risk and are included in total economic capital requirements accordingly. They are also taken into account in risk management through the aforementioned stress tests and test scenarios.

Measurement of counterparty default risk

Counterparty default risk is assessed at an individual counterparty or individual transaction level, based on internal rating processes. In this case, the bank uses the advanced internal ratings-based approach (IRBA). For economic management purposes, estimation of the EAD and LGD parameters closely follows the IRBA. Under supervisory law, KfW IPEX-Bank is permitted to apply the IRBA in its rating systems for the following:

– Corporates
– Banks
– Countries
– Project, ship and aircraft financing
– Simple risk weighting for special financing operations in the elementary/slotting approach

As required by the CRR, the bank's IRBA rating systems are used to estimate the central risk parameters separately[6]:

– Probability of Default (PD)
– Loss Given Default (LGD)
– Exposure at Default (EAD).

With the exception of project, ship and aircraft financing transactions, these processes are based on scorecards developed internally. In the case of project, ship and aircraft financing, various simulation-based rating modules, licensed from an external provider, are used to measure counterparty default risk. In such cases, risk assessment is mainly determined by the cash flows generated by the financed asset or project.

The rating procedures are calibrated to a one-year probability of default. Both ratings for new customers and follow-on ratings for existing customers are determined observing the principle of dual control in the back-office departments.

The probabilities of default are depicted on a master scale, with the aim of ensuring the comparability of individual rating processes. The master scale consists of 20 different subclasses, which can be grouped together into four classes: investment grade, non-investment grade, watch list and default. The range of probabilities of default and the average probability of default are defined for each master scale subclass.

There are organisational instructions for the rating processes, which govern in particular responsibilities, authorities and control mechanisms. Comparability between internal ratings and external ratings by rating agencies is assured by mapping the external ratings onto the master scale.

The rating processes are regularly validated and developed further, with the aim of ensuring that it is possible to respond promptly to changing general conditions. The objective is to continuously ensure the suitability of the calibration and selectivity of all rating processes.

Both the outstanding volume of lending and the valuation of collateral exert a significant influence on the amount of default. As part of the collateral valuation for eligible collateral[7], expected net proceeds from realisation of collateral in the event of default are estimated over the entire tenor of the loan. Collateral value adjustments are applied in this process. In the case of personal collateral, this takes account of the probability of default and loss ratio of the collateral provider. In the case of security in rem, adjustments are attributable not only to market price fluctuations but also, and principally, to losses in value due to depreciation. The value thus calculated is an important component of loss estimates (LGD).

Depending on the availability of data, the various valuation procedures for individual collateral types are based on internal and external historical loss data as well as on expert estimates. The valuation parameters are subject to a regular validation process.

Interaction between risk properties of individual commitments in the credit portfolio is assessed using an internal portfolio

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

[7] In order for collateral to be eligible, it must be possible to quantify the risk-mitigating effect of the collateral reliably and realistically, and the Collateral Management team must take all necessary and possible procedural steps to ensure that the mitigating effect of the collateral taken as a basis when measuring risk can actually be realised. Apart from eligible collateral there is also non-eligible collateral, although it is not taken into account when measuring risk.

model. Pooling together large parts of the portfolio 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 (ECAP). Concentrations are measured based on the economic capital commitment. The aim is to ensure 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 on a monthly basis to inform the Management Board about the current risk situation. Risk reports prepared on quarterly reporting dates are more extensive than monthly reports in terms of their scope and the details provided on the risk situation. Ad hoc reports are also compiled as required in addition to regular risk reporting.

Management of counterparty default risk

The following central instruments are used to control counterparty default risk at KfW IPEX-Bank:

Limit management

The limit management system (LMS) is used to limit default risks. This involves monitoring individual commitments and concentration risks, with the aim of controlling and restricting them by setting limits. Limits are set per group of connected clients and per country and also per individual counterparty in the case of shadow banks. Limits are applied based on the variables of net exposure and economic capital requirement. Individual limits deviating from standard limits may be defined, taking into account internal guidelines concerning the allocation of individual limits.

Risk guidelines

In addition to the LMS, the credit portfolio is managed via risk guidelines. For this purpose, Credit Risk 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 front-office departments when initiating business. Risk guidelines can be applied to all relevant key credit risk data (for example, maturity, collateral, rating), and may be structured by sector, region or product.

Portfolio management

In cases where trigger events occur, portfolio management helps to improve the risk/return ratio of KfW IPEX-Bank's portfolio and to limit concentration risks by identifying ways to reduce risk and by bringing about decisions. Portfolio management is also included in the annual planning process in order to integrate its risk and portfolio perspective into both the strategy process and group business sector planning.

Portfolio Risk Committee

In addition to operational cooperation between portfolio management and front-office departments, the Portfolio Risk Committee (PRC) meets every quarter or on an ad hoc basis. The committee is chaired by the member of the Management Board who is responsible for risk management. The PRC decides on risk reduction measures, prohibits new business where necessary and chooses sectors where limits are to be applied. Furthermore, it proposes limit levels and risk-weighted asset (RWA) budgets, investigates the extent to which measures are being implemented and discusses possible risks in the market environment and observations on the portfolio.

Intensified loan management and problem loan processing

Exposures with a considerably higher risk of default (watch list cases) are subject to intensified loan management. This involves closely monitoring the economic performance of the borrower and reviewing the collateral values on a regular basis. In the case of non-performing loans (NPL) the possibility of loan restructuring or other remedial action is considered. If restructuring or other remedial action is not possible or does not appear to be viable economically, the loan will be liquidated and the collateral realised. At the same time, the alternative of selling the loan on the 'distressed market' is also always evaluated. The Restructuring and Collateral Management department is in charge of processing non-performing loans, and in some cases, it also helps to manage or takes over the processing of commitments subject to intensified loan management. Specialists are involved at an early stage, to ensure professional problem loan management throughout the process.

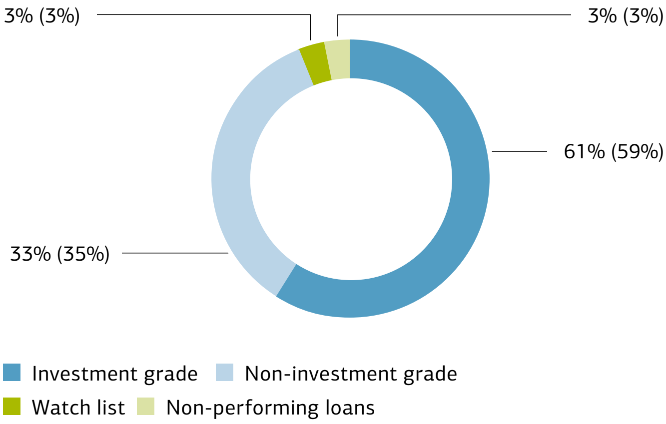
Counterparty Risk Committee

The Counterparty Risk Committee (CRC), which convenes every month and is chaired by the member of the Management Board in charge of risk management, discusses risk-related developments in the credit portfolio, provides an overall perspective on alternatives for action with regard to watch list and NPL cases as well as other commitments subject to particular observation, and monitors their implementation.

Structure of counterparty default risk

Net exposure by rating class[1)]

2019 (2018), Total net exposure: EUR 7.9 billion

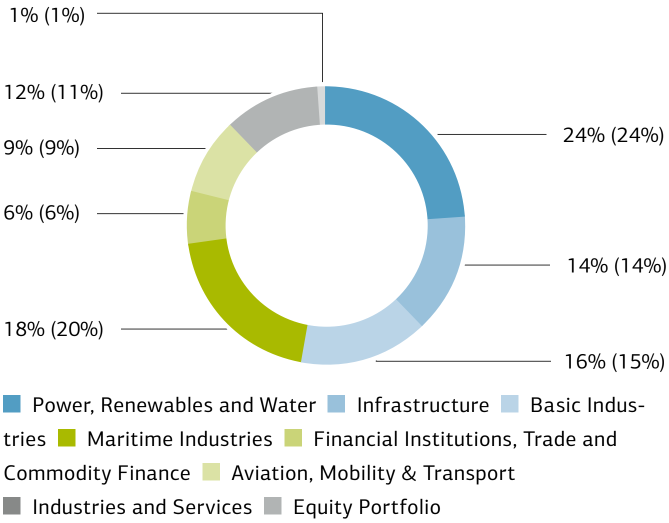


1) The net exposure for performing loans can be calculated as the maximum function of economic and political net exposure.

Net exposure is EUR 7.9 billion. The credit rating structure of the performing portfolio has improved year-on-year, with the proportion of investment grade exposures rising to 61%, which was due in particular to rating upgrades, while the proportion of non-investment grade exposures fell to 33%. The proportion of watch list loans and NPLs in the portfolio remained stable year-on-year in terms of net exposure. The average probability of default of the performing portfolio fell slightly from 0.94% to 0.86% in the 2019 financial year.

Economic capital requirements by sector department

2019 (2018), Total ECAP: EUR 593 million[1)]

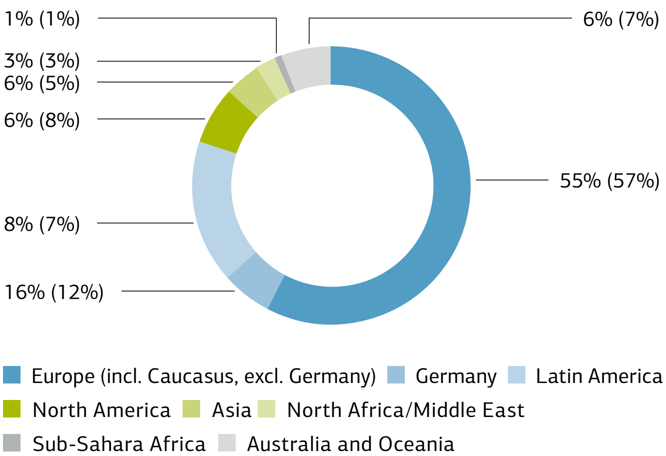


1) Excluding migration risk included under credit risk

The overview above shows the diversification of the portfolio across the bank's individual sector departments. The largest shares of economic capital continue to be allocated to the sector departments of Power, Renewables and Water and Maritime Industries, with 24% and 18% respectively.

Economic capital requirements by region

2019 (2018), Total ECAP: EUR 593 million[1)]



1) Excluding migration risk included under credit risk

In regional terms, business is focused on Europe including Germany, which accounts for 71% of economic capital for counterparty default risk.

Risk provisions for counterparty default risks

The portfolio of specific loan loss provisions and other lending business provisions for disbursed loans, financial guarantees and irrevocable loan commitments, structured according to sector department, was as follows as of 31 December 2019:

Specific loan loss provisions

Sector department	31 Dec. 2019 EUR in millions	31 Dec. 2018 EUR in millions	Change EUR in millions
Maritime Industries	72	83	–11
Financial Institutions, Trade and Commodity Finance	39	39	0
Basic Industries	38	15	23
Infrastructure	18	16	2
Power, Renewables and Water	10	13	–3
Aviation, Mobility & Transport	0	0	0
Industries and Services	0	0	0
Equity Portfolio	0	0	0
Total	**177**	**166**	**11**

As of 31 December 2019, portfolio loan loss provisions by sector department were as follows:

Portfolio loan loss provisions

Sector department	31 Dec. 2019 EUR in millions	31 Dec. 2018 EUR in millions	Change EUR in millions
Power, Renewables and Water	50	37	13
Basic Industries	24	27	–3
Infrastructure	18	9	9
Maritime Industries	13	32	–19
Aviation, Mobility & Transport	8	8	0
Financial Institutions, Trade and Commodity Finance	7	9	–2
Industries and Services	5	4	1
Equity Portfolio	1	1	0
Other	0	3	–3
Total	**126**	**130**	**–4**

Write-downs on investments totalling EUR 10 million were also required during the financial year for solvency reasons.

MARKET PRICE RISK

KfW IPEX-Bank measures and manages market price risks on a net present value basis. The economic capital requirement for market price risks is calculated based on the value-at-risk concept. The economic view of Pillar II takes into account interest rate risk (consisting of the risk subtypes of interest rate change risk, and tenor and cross-currency basis spread risk, which are examined together) in the banking book, foreign exchange risk, credit spread risk for securities and interest rate volatility risk. The potential present value loss or price loss is determined for each type of market price risk using the value at risk based on a historical simulation. The economic capital requirement is ultimately calculated from total VaR, which takes into account diversification effects between the various types of market price risks.

As well as monthly reporting as part of risk reporting, the bank has set up a Market Price and Liquidity Risk Committee (MLRC), which meets every quarter as well as on an ad hoc basis and is chaired by the member of the Management Board in charge of risk management, as a central instrument for managing market price and liquidity risks. The committee focuses both on monitoring the current risk situation and on discussing the management of market price and liquidity risks as well as issues in relation to funding, transfer pricing, derivatives business, local currency business and valuations conducted in accordance with the German Commercial Code.

In total, EUR 227 million of economic capital was allocated to market price risks at KfW IPEX-Bank as of 31 December 2019. This represents a decrease of EUR 206 million compared with 31 December 2018. This reduction is mainly due to new risk methods introduced on 31 March 2019 from a new risk system and to the reduction in the confidence level from 99.96% to 99.90%. Market price risk breaks down as follows:

Economic capital requirement for market price risks

	31 Dec. 2019 EUR in millions	31 Dec. 2018 EUR in millions
Interest rate risk[1)]	**161**	**242**
Interest rate change risk	86	86
Tenor basis spread risk	50	156[2)]
Cross-currency basis spread risk	133	
Interest rate volatility risk[3)]	**45**	**–**
Currency risk	**105**	**176**
Credit spread risk	**7**	**15**
Intra-risk diversification	**–91**	–[4)]
Market price risk	**227**	**432**

[1)] The risk value as of 31 December 2019 is calculated from the integrated, diversified valuation of the risk factors, whereby risk subtypes are not cumulative.
[2)] Basis spread risk was still being measured on an integrated basis as of 31 December 2018. It is therefore not possible to report tenor and cross-currency basis risks separately.
[3)] Interest rate volatility risk was calculated for the first time as of 31 March 2019. Hence there are no figures for the previous year.
[4)] As of 31 December 2018, diversification effects between risk subtypes were not yet taken into account.

Value at risk approach

The economic capital requirement is calculated based on the value at risk (VaR), using a model that includes the various types of market price risk and is based on consistent methodology. Historical simulation is used as the VaR model, based on market data time series for the last three years (751 trading days). The holding period is 12 months in all cases, with time scaling carried out based on a one-day holding period. Parametric scaling is also carried out on the target quantile (99.9%), based on a 97.5% quantile in historical simulation.

Interest rate risk

The economic capital requirement for interest rate risk is calculated based on historical simulation (see section on value at risk). Risks from yield curves defined as risk factors are measured. The interest rate change risk and the tenor and cross-currency basis spread risk are thus implicitly included. In contrast, interest rate volatility risk and credit spread risk are explicitly not included in interest rate risk, but instead are shown in separate VaR key figures. The VaR calculation is supplemented by regular stress tests, which investigate potential losses in the event of extreme market conditions. As well as the parallel shift in yield curves that is stipulated in regulations, this includes scenarios such as rotation of the yield curves and, in particular, combined scenarios in which parameters in behaviour-based modelling of additional agreements are displaced in combination with or depending on yield curve scenarios. The capital required to cover interest rate risk was down by EUR 81 million at EUR 161 million as of 31 December 2019.

Based on the requirements laid down by Article 448 (b) of the CRR, the following table shows the present value of the interest position, the economic capital requirement calculated for interest rate risk, and the interest rate sensitivity as of 31 December 2019. It also shows the reduction in present value for the regulatory interest rate shock scenario as specified in Circular 09/2019 issued by the German Federal Financial Supervisory Authority (BaFin) in absolute terms and as a proportion of regulatory own funds:

Currency

	EUR	**USD**	**GBP**	**AUD**	**CAD**	**Other**	**Total**
	EUR in millions	**EUR in millions**	**EUR in millions**	**EUR in millions**	**EUR in millions**	**EUR in millions**	**EUR in millions**
Present value interest book	3,252.2	410.6	97.1	10.1	12.8	7.4	3,790.1
Risk value Interest rate risk (99.90%/12-month holding period)	–	–	–	–	–	–	161.0
Interest rate sensitivity (change in present value given an increase in the interest rate by one basis point)	–0.406	–0.129	–0.209	–0.022	–0.023	–0.029	–0.818
Reduction in present value given regulatory interest rate shock (+200/–200 bp)	–	–	–	–	–	–	29.8
As a proportion of regulatory own funds[1]	–	–	–	–	–	–	0.7%

[1] Own funds as of 31 December 2019: EUR 4,515.7 million

Interest rate risk: Interest rate change risk
As well as the VaR for interest rate risk, the economic capital requirement for the risk subtype of interest rate change risk is calculated. This calculation is based on a breakdown of the supplied full curves into basic and basis spread curves. A 'basic curve' is calculated for each currency and the fluctuations in this curve are transferred to all yield curves in the respective currency area. A VaR for interest rate change is calculated on this basis. The capital requirement for interest rate change risk was EUR 86 million as of 31 December 2019 and thus remained unchanged compared with the previous year.

Interest rate risk: Tenor and cross-currency basis spread risk
Similar to interest rate change risk, the calculation of the economic capital requirement for basis spread risks is based on a breakdown of the supplied yield curves into basic and basis spread curves. Movements in the other yield curves with respect to the basic curves for the currency area are divided into tenor and cross-currency basis spread risk portions. The tenor and cross-currency basis spread risk is in each case quantified on the spread curves thus categorised. The capital requirement for basis spread risks was EUR 183 million as of 31 December 2019. This represents an increase of EUR 27 million year-on-year.

Interest rate volatility risk
Interest rate volatility risk has been included in market price risk as a new type of risk since the new Ambit Focus risk system was introduced on 31 March 2019. It is based on changes in the market values of (embedded and stand-alone) interest rate options modelled closely to the market. The economic capital requirement for these risks is calculated as for other risk types based on historical simulation (see section on value at risk). With respect to the lending business, interest rate volatility risk is based on 'floors at 0' established in loan agreements. Interest rate volatility risk is measured as an ancillary effect of original business activities and is limited through an ECAP sublimit, but is not actively managed from an operational viewpoint. The ECAP required to cover interest rate volatility risk is also determined in a volatility stress scenario. The capital requirement for interest rate volatility risks was EUR 45 million as of 31 December 2019.

Currency risk
The economic capital requirement for currency positions is calculated as for interest rate risk based on historical simulation (see section on value at risk). Regular stress tests are also carried out in order to estimate potential losses in the event of extreme market conditions. In particular, the appreciation of the US dollar in the reporting year (EUR/USD as of 31 December 2019: 1.119 and 31 December 2018: 1.145) led to an overall increase of EUR 12.5 million in present values due to changes in exchange rates.

The following table provides an overview of capital requirements and regulatory capital requirements for foreign exchange risk as of 31 December 2019.

Economic capital requirement for foreign exchange risk	Regulatory capital requirements for foreign exchange risk
EUR in millions	EUR in millions
104.9 (previous year: 175.6)	13.4 (previous year: 8.4)

Credit spread risk
Risk measurement is carried out for the securities portfolio. The economic capital requirement for this risk is calculated as for other risk types based on historical simulation (see section on value at risk). The credit spread risk in extreme market conditions, for example in a subprime crisis, is examined in regular stress tests. The economic capital requirement for the credit spread risk was EUR 7 million as of 31 December 2019. The credit spread risk was down EUR 8 million year-on-year, mainly owing to a reduction in the portfolio.

LIQUIDITY RISK
With regard to liquidity risk, KfW IPEX-Bank distinguishes between institutional liquidity risk, market liquidity risk and funding risk. Institutional liquidity risk is the risk of being unable to settle payment obligations at all, on time and/or to the required extent. Market liquidity risk is the risk of losses (in value) if, as a result of a lack of liquidity in the market, assets cannot be traded at all, on time, in full, in sufficient quantity and/or at market conditions. Funding risk is the risk of losses (in value) due to increased market rates for obtaining funding.

Institutional liquidity risk
KfW IPEX-Bank's solvency risk is limited by an existing refinancing agreement with KfW. The refinancing agreement is intended to ensure that KfW IPEX-Bank has access to liquidity through KfW at any time (at market conditions). KfW IPEX-Bank also has marketable securities and access to credit lines with KfW.

KfW IPEX-Bank's liquidity requirement is taken into account at group level in the strategic refinancing planning of KfW. However, KfW IPEX-Bank takes direct responsibility for the operational measurement and management of its own liquidity.

KfW IPEX-Bank measures its solvency risk on the basis of the regulatory liquidity coverage ratio (LCR). The LCR is managed following a limit-based approach, which is implemented in the form of a traffic light system. Furthermore, KfW IPEX-Bank calculates the net stable funding ratio and additional liquidity monitoring metrics in accordance with the Capital Requirements Regulation (CRR) and reports these to the responsible supervisory authorities. Operational liquidity is managed by KfW IPEX-Bank's Treasury based on short, medium and long-term liquidity planning. As part of its liquidity management, KfW IPEX-Bank's Treasury determines – within a defined management framework – the measures to be taken to achieve optimum liquidity positions.

Market liquidity risk
Market liquidity risk is considered not to be material at KfW IPEX-Bank, as the bank mainly holds KfW bonds in its HQLA (High Quality Liquid Assets) portfolio (approx. EUR 400 million). As well as being ECB-eligible, they also have a very good credit rating (AAA).

Funding risk
At KfW IPEX-Bank, funding risk is included under funding cost risk for risk measurement purposes. Funding cost risk is measured by means of the liquidity asset value (*Liquiditätsvermögenswert – LVW*), which models the approximate profit/loss arising from funding costs on the liabilities side and funding inflows on the assets side. Funding cost risk is quantified by means of changes in the liquidity asset value in various scenarios of relevance to the risk situation of KfW IPEX-Bank. A risk limit exists for changes in the liquidity asset value. Monthly checks ensure that this limit is adhered to.

Operational risks

Operational risk is the risk of loss resulting from inadequate or failed internal processes or systems, human error or external events. The sub-risks of operational risk that have been classified as significant are service provider risk (including outsourcing risk), information security risk, physical security risk, legal risk and compliance risk.

KfW IPEX-Bank outsources elements of funding, finance, financial and risk controlling, IT and reporting to KfW (service provider risk). These constitute major outsourcing arrangements as defined in the German Minimum Requirements for Risk Management (*Mindestanforderungen an das Risikomanagement – MaRisk*), which the outsourcing institution must monitor accordingly. Outsourcing arrangements are governed by framework contracts and service level agreements.

KfW IPEX-Bank's outsourcing monitoring activities are divided into roles that are process-dependent, roles that are performed alongside processes, and roles that are independent of processes. The main points of contact in the relevant departments are responsible for specialised process-dependent monitoring on a decentralised basis, while KfW IPEX-Bank's outsourcing officer or the sourcing managers are responsible for formal, methodology-related aspects of these monitoring activities on a centralised basis.

KfW IPEX-Bank's information security risks arise mainly from the outsourcing of all IT activities to KfW. Along with KfW IPEX-Bank's own information security risks, which are recorded on an annual basis and monitored each quarter, KfW IPEX-Bank coordinates closely with KfW's information security unit with regard to this type of risk. Reports are submitted to the relevant committees every quarter. Decisions on how to deal with information security risks at KfW that are also relevant to KfW IPEX-Bank are made jointly.

Physical security risk refers to the risk of losses owing to damage to or the destruction of infrastructure that is used for operational purposes and to risks to life and limb for employees. Central risk controlling activities relating to this have been outsourced to KfW by means of a service level agreement. As parts of KfW IPEX-Bank's infrastructure have also been provided by KfW, this is closely linked to the sub-risk 'service provider risk', which has also been classified as significant.

KfW IPEX-Bank counters legal risk by involving KfW's Legal Affairs department in KfW IPEX-Bank's business processes via outsourcing and by cooperating with external legal consultants, particularly in the case of commitments abroad.

Two units are responsible for compliance risk at KfW IPEX-Bank: the compliance function (Regulatory Compliance), established on the basis of the German Minimum Requirements for Risk Management (MaRisk)[8], and Operational Compliance, which acts as the central body responsible for the prevention of money laundering, securities compliance and other compliance requirements of an operational nature.

As part of the annual risk analysis, the Regulatory Compliance department evaluates the appropriateness and effectiveness of procedures and safeguards that KfW IPEX-Bank has put in place in order to implement standards that are of significance to the bank.

The responsibilities of Regulatory Compliance include participating in risk analyses of outsourcing management pursuant to AT 9 nº 2 of the German Minimum Requirements for Risk Management. In addition, Internal Auditing carries out risk-based and process-independent monitoring, reviewing the proper conduct of activities and processes.

Operational Compliance is responsible for the prevention of money laundering and financing of terrorism, securities compliance including insider trading and market manipulation, compliance with sanctions and prevention of other criminal acts. For the department as a whole, the central complaints office of KfW IPEX-Bank is also located within this unit as an interim solution (a decision on its permanent location is to be taken in 2020), along with the management of the Internal Governance Board (IG Board).

Supervisory requirements regarding risk management are derived from the standard approach according to the CRR, which is used as a basis for calculating regulatory capital requirements for operational risks at KfW IPEX-Bank, as well as from the German Minimum Requirements for Risk Management.

KfW IPEX-Bank's risk strategy sets out a framework for dealing with operational risks and is based on the guidelines of KfW (group strategy).

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

- The Management Board of KfW IPEX-Bank as the operational risk decision-making and control body;
- KfW IPEX-Bank's decentralised units with responsibility for operational risk management in the relevant departments;
- The KfW IPEX-Bank coordinator in charge of both operational risks and business continuity management as the central point of responsibility for operational risk issues;
- Involvement of the Internal Auditing department as an independent control unit.

[8] General Section of MaRisk, 4.4.2

The most important instruments in operational risk management include risk assessment, recording operational risk events, deriving measures to address them and the early-warning system.

Significant operational risks are systematically analysed and assessed using risk scenarios during an annual risk assessment. The operational risk profile of KfW IPEX-Bank is ascertained on this basis.

There is also an early-warning system for recording and measuring operational risk indicators. The primary objectives are to avoid losses from operational risks and to identify unfavourable trends. The indicators address various operational risk areas and are included in quarterly reporting on operational risks.

The event database captures and processes operational risk events. Cause analysis is used to identify weaknesses in business processes and quantify operational risks. The database also enables evaluation and electronic archiving of loss data.

Measures derived from the event database that prevent, reduce or shift risk are recorded in a measures database. This is for documentation purposes and also to monitor the implementation of these measures.

The bank has established a Non-Financial Risk Committee (NFRC) to discuss operational risks, among other matters. The committee is chaired by the member of the Management Board responsible for risk management and meets every quarter or on an ad hoc basis. In addition to monitoring the current risk situation with regard to non-financial risks overall, the committee focuses primarily on discussing sub-risks of operational risk that are classified as significant for KfW IPEX-Bank with the responsible specialist units. The committee also deals with relevant issues in relation to regulatory risk, reputational risk and business continuity management, among other matters.

With a focus on internal governance issues, the Management Board has set up an Internal Governance Board (IG Board), in which the heads of Compliance, Risk Controlling, Organisation and Internal Auditing collaborate. In particular, the IG Board's objective is to ensure a common view of regulatory developments that, owing to their relevance to KfW IPEX-Bank's internal governance, are of bank-wide importance and thus affect the respective areas of responsibility of the Board's members as cross-cutting issues. The IG Board serves to ensure that the various activities of its members are aligned even more closely, while preserving their technical responsibilities and independence.

Concentration risks

With regard to concentration risks, KfW IPEX-Bank differentiates between intra-risk concentrations (within one risk type) and inter-risk concentrations (spanning several risk types).

Significant intra-risk concentrations result from business activities in credit risk in individual sectors, countries or borrower units. KfW IPEX-Bank aims to actively restrict intra-risk concentrations by means of limit management. In addition, concentrations of personal collateral and security in rem obtained to mitigate credit risk are a by-product of the bank's business model as a project and specialist financier. Providers of personal collateral are primarily sovereigns and government institutions (export credit insurance). Security in rem is largely attributable to the transport sectors (primarily Maritime Industries as well as Aviation, Mobility & Transport).

Due to the international nature of the bank's business activities, financing is also provided in foreign currencies. This has led to currency concentration in the USD loan book. The bank seeks to avoid the resulting foreign exchange risks as far as possible by means of funding in the same currency and hedging.

Given the bank's business model, inter-risk concentrations are less pronounced than intra-risk concentrations.

As part of its regular risk reporting process, the bank describes and monitors concentration risks. Concentration risks are also included in stress tests.

Regulatory risks

Regulatory risks arise for KfW IPEX-Bank primarily through more stringent requirements for minimum capital ratios and due to potentially negative consequences for KfW IPEX-Bank's business model resulting from future changes in the regulatory environment. These also include costs incurred in connection with the implementation and ongoing fulfilment of additional requirements and the resources that are tied up as a result.

KfW IPEX-Bank's capitalisation and possible capitalisation measures are continuously reviewed in the course of capital planning and in collaboration with the bank's shareholder. In addition, any changes in the legal and regulatory environment in which KfW IPEX-Bank operates are actively monitored. Where required, regulatory risks (e.g. in connection with the finalisation of capital requirements regulations in accordance with Basel III) are also analysed and measured as part of scenario observations.

Internal control procedures
The internal control procedures at KfW IPEX-Bank consist of the internal control system (ICS) and the Internal Auditing department. They aim to ensure that corporate activities are controlled and that the rules that have been put in place are functioning properly and complied with.

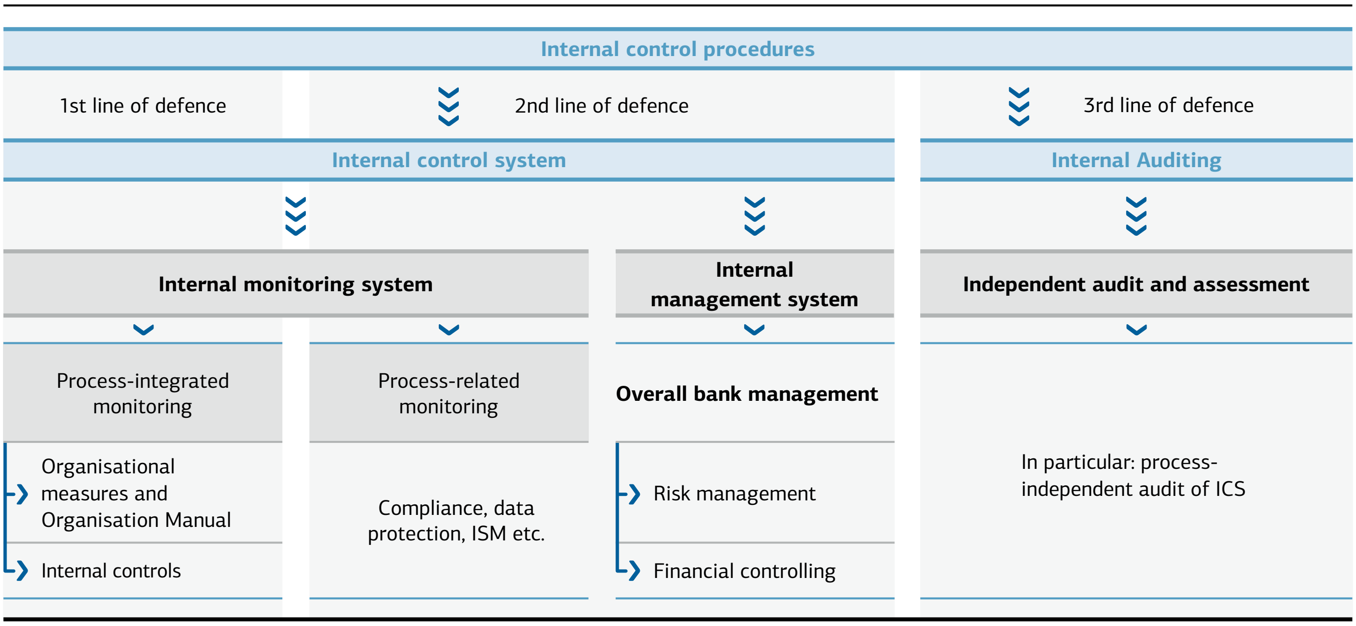
KfW IPEX-Bank's ICS can be described as follows, using the 'three lines of defence' model:

The first line of defence, which protects against risks that affect the bank, is made up of process-integrated controls on operational business areas (front office) and on back-office and service areas ('risk ownership').

Behind this is the second line of defence, comprising all functions that, firstly, set standards and develop subject-specific guidelines for dealing with relevant risks and, secondly, monitor this activity in parallel with processes ('risk control').

In the third line of defence, Internal Auditing carries out process-independent checks within the first two lines of defence. It examines whether the controls in business and monitoring processes and the measures in the second line of defence are appropriate and effective ('risk assurance').

In accordance with relevant group standards, the 'three lines of defence' model at KfW IPEX-Bank has been applied to ICS work instructions:



The monitoring functions ('second line') responsible for significant risk types/risk subtypes at KfW IPEX-Bank are:

- Operational Compliance (prevention of money laundering, financial sanctions, prevention of fraud and corruption, and securities compliance)
- Regulatory Compliance (compliance function in accordance with MaRisk)
- Data protection
- Information security
- Business continuity management (BCM)
- Monitoring of outsourced functions
- Operational risk

Internal Auditing

The Internal Auditing department is an instrument of the Management Board. As a department independent of bank processes, it reviews and assesses all processes and activities of KfW IPEX-Bank with regard to risk and reports directly to the Management Board.

In terms of the processes involved in risk management, during the past financial year the Internal Auditing department reviewed both risk management processes within KfW IPEX-Bank and risk management activities that are outsourced. Its focus was on reviewing risk assessment processes involved in lending and loan management and on procedures connected with bank-wide risk management, including the specialist monitoring of outsourced functions.

With regard to outsourced functions, Internal Auditing's reporting also takes into account the findings of audits carried out by the respective companies' internal audit departments. KfW IPEX-Bank's Internal Auditing department can also perform its own audits of outsourced processes where necessary.

Internal control system – Process-related monitoring – Compliance

Compliance with regulatory requirements and voluntary performance standards is part of KfW IPEX-Bank's corporate and risk culture. KfW IPEX-Bank's operational compliance organisation includes, in particular, systems for preventing insider trading, conflicts of interest, money laundering, terrorist financing and other criminal activities as well as for dealing with financial sanctions. The compliance organisation also includes Regulatory Compliance, which works towards the implementation of effective procedures to ensure adherence to legal regulations and guidelines that are relevant to the bank, as well as appropriate controls.

In keeping with the 'three lines of defence' model, Operational Compliance has broadened its function as the monitoring unit within the second line of defence and to this end stepped up its monitoring activities in 2019. Specialist monitoring activities have been developed on the basis of risk analyses and have been consolidated in a monitoring plan.

Regulatory Compliance has also introduced a control and monitoring concept for its key monitoring activities.

Employees of KfW IPEX-Bank receive regular compliance training in the form of mandatory face-to-face training sessions, which aim to cover all of the aforementioned areas of compliance.

Internal control system – Process-integrated monitoring – Internal controls

To provide the Board of Supervisory Directors with a basis for its annual review of the internal control system (ICS), KfW IPEX-Bank prepares an annual ICS report based on KfW IPEX-Bank's independent ICS framework. In order to maintain group-wide standards on comprehensibility and basic methodology, KfW IPEX-Bank's ICS continues to be geared towards KfW Group's guidelines

(Framework on internal governance of internal control procedures), particularly in terms of the structuring of the internal control system using the COSO 2013 model[9] in conjunction with the 'three lines of defence' model.

Process-integrated controls help to prevent, reduce, detect and/or correct processing errors or financial losses.

- The Organisation Manual of KfW IPEX-Bank, including process documentation (ADONIS), and the Risk Manual act as organisational safeguards. Together, these make up KfW IPEX-Bank's written procedural rules. They include comprehensive documentation of regulations on the organisation of structures and processes that apply to KfW IPEX-Bank.
- Internal controls have been established for work processes, particularly when there is a risk of loss of assets, information or value, or a risk of errors that would have an external impact affecting customers or suppliers.

The procedures and methods used to assess the appropriateness and effectiveness of these internal controls are based on the established processes of the Internal Auditing department, which are in turn based on applicable standards (e.g. DIIR, IIA, ISA, IDW)[10].

Accounting-related internal control system
A further feature of the ICS is that KfW IPEX-Bank is directly integrated into KfW's internal control system for accounting processes.

The performance of controls over the preparation of the annual financial statements is monitored by the respective responsible unit using ICS process-control checklists. KfW's Accounting department carries out centralised IT-based monitoring of the performance of controls and reports to KfW IPEX-Bank on an annual basis.

The fact that KfW IPEX-Bank outsources processes relating to the annual financial statements to KfW is described accordingly in the internal control system framework ('ICS for accounting purposes').

[9] COSO = Committee of Sponsoring Organizations of the Treadway Commission, www.coso.org. The COSO I model and the updates made to it in 2013 are an instrument for introducing internal control systems and reviewing them to ensure they are appropriate and effective.
[10] DIIR = German Institute for Internal Auditing (*Deutsches Institut für Interne Revision*), IIA = Institute for Internal Audit, ISA = International Standards on Auditing, IDW = Institute of Public Auditors in Germany (*Institut der Wirtschaftsprüfer*)

Other disclosures

Corporate governance statement in accordance with Section 289f (4) of the German Commercial Code

Increasing the number of women in management positions not only reflects the requirements of German law on equal participation of women and men in management positions in the private and public sectors, but also the bank's own objectives. As of 31 December 2019, the proportion of women in head of department positions at KfW IPEX-Bank was 27.8% and the proportion of women at team head level was 31.4%. KfW IPEX-Bank had set itself the objective of increasing the proportion of female staff at head of department level to 31.6% by 30 June 2022, and the proportion at team head level to 30%. By 30 June 2022, KfW IPEX-Bank aims to achieve the following targets for the proportion of women on the Management Board and Board of Supervisory Directors: 25.0% for the Management Board (i.e. one of four members) and 22.2% for the Board of Supervisory Directors (i.e. two of nine members).

Non-financial statement in accordance with Section 289b (2) of the German Commercial Code

In accordance with Section 289b (2) of the German Commercial Code, KfW IPEX-Bank is exempt from the obligation to supplement the management report with a non-financial statement. Details on the 'Combined non-financial statement of KfW as parent company and of the Group' are contained in the standard report of the 2019 Sustainability Report. The report follows the Global Reporting Initiative (GRI) guidelines and can be downloaded from the internet[11)].

11) https://www.kfw.de/KfW-Group/Service/Download-Center/Konzernthemen/Nachhaltigkeit/index.jsp

Forecast Report

KfW IPEX-Bank believes that the global economy is likely to revive only slightly in 2020. Year-on-year growth of 3.1% is expected in global real GDP, following growth of 2.9% in 2019 according to estimates by the IMF. The IMF also predicts that the trend in industrialised countries will differ from that in developing and emerging countries (as per its definition), with aggregate real GDP for industrialised countries set to grow more slowly in 2020 than in 2019 (see table 'Gross domestic product at constant prices'). According to the IMF's remarks in its October 2019 edition of the World Economic Outlook, this applies in particular to the USA, where fiscal stimulus is no longer expected to have an expansionary effect, but instead is likely to have a neutral impact, and to Japan, where the effects of the VAT rise are expected to weigh on private consumption, despite fiscal countermeasures. The overall performance of developing and emerging countries may be the reverse of that of industrialised countries (see table 'Gross domestic product at constant prices'). Large emerging market countries such as Brazil, Mexico, Russia and India in particular are expected to record higher annual growth rates in real GDP than in 2019, and countries like Turkey are expected to overcome their recessions. Nevertheless, the aggregate annual growth rate for developing and emerging market countries in 2020 will remain below the average figure of 5.0% for the period from 2011 to 2018.

Gross domestic product at constant prices

Year-on-year change in %

	Estimate for 2019[1)]	Forecast for 2020[2)]	Average 2011 – 2018
Global economy[3)]	2.9	3.1	3.6
Industrialised countries[4)]	1.7	1.5	1.9
Developing and emerging countries[5)]	3.7	4.2	5.0

1) Source: IMF (2020), World Economic Outlook. An Update to the Key WEO Projections, January 20, 2020

2) Source: Forecasts based on World Economic Outlook Data, October 2019 Edition

3) Aggregation of annual growth rates in gross domestic product at constant prices of individual countries based on shares of the country-specific gross domestic product, valued at purchasing power parity, in the corresponding aggregate; division into industrialised and emerging countries in accordance with the IMF classification; average calculated as the geometric mean of annual growth rates

4) Aggregation of annual growth rates in gross domestic product at constant prices of individual countries based on shares of the country-specific gross domestic product, valued at purchasing power parity, in the corresponding aggregate; division into industrialised and emerging countries in accordance with the IMF classification; average calculated as the geometric mean of annual growth rates

5) Aggregation of annual growth rates in gross domestic product at constant prices of individual countries based on shares of the country-specific gross domestic product, valued at purchasing power parity, in the corresponding aggregate; division into industrialised and emerging countries in accordance with the IMF classification; average calculated as the geometric mean of annual growth rates

According to the IMF, this baseline scenario involves several risks. Global growth in real GDP in 2020 may turn out to be lower as a result of various developments: (a) owing to the further escalation of trade tensions and the associated increase in political uncertainty; (b) owing to an increase in risk premiums on the financial markets, which would probably lead to tighter financial conditions, particularly for economies with budget or balance of trade deficits; (c) owing to increased vulnerability to external shocks in countries where private debt (private households and businesses) and public debt have risen; (d) owing to geopolitical conflict and extreme weather conditions (climate change) having a negative impact on productivity growth (for example by disrupting supply chains).

KfW IPEX-Bank expects gross domestic product in the euro area to grow by 1.0% in real terms in 2020. This is lower than the previous year's growth and below the average for the period from 2011 to 2018. With regard to the demand-side components of GDP, private consumption is likely to make the biggest contribution to growth in real GDP in percentage points (0.8 percentage points). This forecast is based on the assumption that employment in the euro area will continue to rise in 2020. The European Commission believes that the uncertainty associated with ongoing trade tensions is a factor that will curb growth in real GDP in 2020. As a result, growth in gross fixed capital formation is expected to fall and net exports are not expected to contribute to growth.

In Germany, real GDP is expected to grow by 0.9% year-on-year in 2020 (GDP for 2020 adjusted for price changes and calendar effects: +0.5% year-on-year). In the context of the global economic forecasts outlined above, KfW IPEX-Bank expects net exports to curb growth in real GDP in 2020. On the other hand, it expects consumption and construction investment to make the largest contributions to growth on the expenditure side of real GDP in 2020. The latter prediction is based on the assumption that the number of people in employment in Germany will continue to rise this year.

Gross domestic product at constant prices
Year-on-year change in %[1)]

	2019	Forecast for 2020	Average 2011 – 2018
Euro area	1.2	1.0	1.3
Germany	0.6	0.9	1.9

1) Table sources: Eurostat, Destatis

In KfW IPEX-Bank's view, risks that are particularly relevant to the euro area and Germany and that could lead to lower than expected growth in real GDP in 2020 are an escalation of global trade tensions, including the possibility of special US tariffs on imports of cars and car parts from the European Union, a disorderly Brexit and/or new lines of conflict in the negotiations expected to take place in 2020 on long-term relations between the European Union and the United Kingdom, and Italy's public debt, which represents a permanent source of uncertainty that affects confidence in financial markets in the European Monetary Union and thus also in Germany.

KfW IPEX-Bank wants to further consolidate its position as a specialist bank for structured export and project finance and a partner to the German and European economies in 2020. The predicted development of sales markets in industrialised and emerging countries offers continued export opportunities.

KfW IPEX-Bank will therefore continue in its role of supporting German and European companies in 2020, assisting them in their international activities by providing medium and long-term financing for exports and foreign investment projects that is geared towards its clients' requirements. It seeks to play a leading role in syndicate financing arrangements and to include risk partners in financing structures.

In regional terms, there will be a particular focus on growth markets in Asia, North and South America, and Africa, which are important for the German and European economies in terms of exports and direct investment.

The bank is selectively adding to its product portfolio, which is expected to help build on existing customer relationships and tap into new customers and customer groups for financing transactions in the E&P business sector.

Based on the market potential that the bank is anticipating and ongoing tough competition, KfW IPEX-Bank has set a target of EUR 19.0 billion for the volume of new commitments for the 2020 financial year, of which EUR 12.1 billion is to be market business and EUR 6.9 billion trust business (including CIRR).

Net interest income and net commission income are budgeted at EUR 320 million and EUR 204 million respectively, and are thus 8% (due to growth in new business and disbursements from contracted financing) and 11% (due to higher new business volume) above the respective figures for the previous year. A target of EUR 269 million has been set for administrative expense, 6% higher than the previous year's budgeted figure. Standard risk costs are expected to come to EUR 86 million, down EUR 2 million on the prior-year level. In total, the bank is aiming for earnings before tax of EUR 168 million and a CIR of 53.4%. The planned CET1 capital ratio of 17.0% exceeds the capital requirements and is met even in the stress case scenario. KfW IPEX-Bank funds itself almost entirely through borrowings from KfW, also over its planning horizon, with terms and conditions based on KfW IPEX-Bank's rating on capital markets.

The targets presented are considered to be appropriate and robust, but are subject to forecasting uncertainty arising from the unpredictability of factors that influence the course of the bank's business. This uncertainty also applies to the forecast result for 2020, which will depend, as in previous years, on the level of risk provisions required for our conservative benchmarks.

As part of the implementation of the profit transfer agreement, KfW IPEX-Bank will transfer its entire profit under German commercial law for the 2019 financial year to KfW Beteiligungsholding GmbH. A decision will subsequently be made on the basis of the bank's capital planning as to whether KfW IPEX-Bank's capital base will be strengthened by reinvesting parts of the transferred profits in the form of a shareholder contribution or by means of other appropriate capital measures.

Financial Statements, Notes, Auditor's Report

Country-by-country reporting as per Section 26a of the German Banking Act

Corporate Governance Report

Financial Statements of KfW IPEX-Bank 2019

Balance Sheet of KfW IPEX-Bank as of 31 December 2019

Assets

	31 Dec. 2019				31 Dec. 2018			
	EUR in thousands	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			8				6	
b) funds with central banks			0				0	
of which: with the Deutsche Bundesbank	*0*				*0*			
c) funds held with postal giro offices			0	**8**			0	**6**
2. Loans and advances to banks								
a) mortgage loans			0				0	
b) municipal loans			234,529				153,501	
c) other loans and advances			908,521	**1,143,050**			1,086,564	**1,240,065**
of which: due on demand	*1,350*				*1,385*			
of which: collateralised by securities	*0*				*0*			
3. Loans and advances to customers								
a) mortgage loans			764,902				761,117	
b) municipal loans			1,088,039				926,308	
c) other loans and advances			22,048,109	**23,901,050**			22,157,956	**23,845,381**
of which: collateralised by securities	*0*				*0*			
4. Bonds and other fixed-income securities								
a) money market instruments								
aa) of public issuers		0				0		
of which: eligible as collateral with the Deutsche Bundesbank	*0*				*0*			
ab) of other issuers		0	0			0	0	
of which: eligible as collateral with the Deutsche Bundesbank	*0*				*0*			
b) bonds and notes								
ba) of public issuers		0				0		
of which: eligible as collateral with the Deutsche Bundesbank	*0*				*0*			
bb) of other issuers		499,029	499,029			1,635,190	1,635,190	
of which: eligible as collateral with the Deutsche Bundesbank	*400,986*				*1,539,006*			
c) own bonds			0	**499,029**			0	**1,635,190**
Nominal value	0				0			
5. Investments				**26,585**				**43,611**
of which: in banks	*360*				*360*			
of which: in financial services institutions	*0*				*0*			
6. Assets held in trust				**372.704**				**368,673**
of which: loans held in trust	*372,181*				*368,480*			
7. 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			209				258	
c) goodwill			0				0	
d) payments on account			0	**209**			0	**258**
8. Property, plant and equipment				**403**				**410**
9. Other assets				**23,412**				**120,507**
10. Prepaid expenses and deferred charges								
a) from issuing and lending			20,893				331	
b) other			13,240	**34,133**			14,462	**14,793**
Total assets				**26,000,583**				**27,268,894**

Liabilities and equity

	31 Dec. 2019				31 Dec. 2018			
	EUR in thousands	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) registered Mortgage Pfandbriefe in issue			0				0	
b) registered Public Pfandbriefe in issue			1,033,538				999,750	
c) other liabilities			19,508,518	**20,542,056**			20,483,921	**21,483,671**
of which: due on demand	*26,300*				*224,022*			
of which: registered Mortgage Pfandbriefe pledged as collateral for loans taken up	*0*				*0*			
and registered Public Pfandbriefe	*0*				*0*			
2. Liabilities to customers								
a) registered Mortgage Pfandbriefe in issue			0				0	
b) registered Public Pfandbriefe in issue			0				0	
c) savings deposits								
ca) with agreed period of notice of three months		0				0		
cb) with agreed period of notice of over three months		0	0			0	0	
d) other liabilities			110,395	**110,395**			195,219	**195,219**
of which: due on demand	*18,427*				*4,221*			
of which: registered Mortgage Pfandbriefe pledged as collateral for loans taken up	*0*				*0*			
and registered Public Pfandbriefe	*0*				*0*			
3. Liabilities held in trust				**372,704**				**368,673**
of which: loans held in trust	*372,181*				*368,480*			
4. Other liabilities				**255,742**				**251,688**
5. Deferred income								
a) from issuing and lending			2,923				3,126	
b) other			14,054	**16,977**			16,173	**19,299**
6. Provisions								
a) provisions for pensions and similar commitments			211,367				179,903	
b) tax provisions			4,418				4,580	
c) other provisions			62,535	**278,320**			60,494	**244,977**
7. Subordinated liabilities				**0**				**436,681**
8. Fund for general banking risks				**345,531**				**339,013**
9. Equity								
a) called capital								
subscribed capital		2,100,000				2,100,000		
less uncalled outstanding contributions		0	2,100,000			0	2,100,000	
b) capital reserves			1,554,409				1,405,224	
c) retained earnings								
ca) legal reserve		0				0		
cb) reserves for shares in a company in which KfW IPEX-Bank holds a controlling or majority stake		0				0		
cc) statutory reserve		0				0		
cd) other retained earnings		424,449	424,449			424,449	424,449	
d) net income for the year			0	**4,078,858**			0	**3,929,673**
Total liabilities and equity				**26,000,583**				**27,268,894**
1. Contingent liabilities								
a) from the endorsement of rediscounted bills		0				0		
b) from guarantees and guarantee agreements		1,975,857				1,606,919		
c) assets pledged as collateral on behalf of third parties		0	1,975,857			0	1,606,919	
2. Other obligations								
a) commitments deriving from non-genuine repurchase agreements		0				0		
b) placing and underwriting commitments		0				0		
c) irrevocable loan commitments		9,149,658	9,149,658			8,422,620	8,422,620	

Income Statement of KfW IPEX-Bank from 1 January 2019 to 31 December 2019

Expenses

	1 Jan.–31 Dec. 2019				1 Jan.–31 Dec. 2018			
	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands
1. Interest expenses			547,669				451,210	
less positive interest from banking business			–8,996	**538,673**			–8,205	**443,005**
2. Commission expense				**2,649**				**2,160**
3. Administrative expense								
a) personnel expense								
aa) wages and salaries		82,566				75,638		
ab) social insurance contributions, expense for pension provision and other employee benefits		14,591	97,157			34,809	110,447	
of which: for pension provisions	*5,127*				*26,273*			
b) other administrative expense			129,629	**226,786**			133,692	**244,139**
4. Depreciation and impairment on intangible assets and property, plant and equipment				**162**				**159**
5. Other operating expenses				**27,555**				**23,055**
6. Write-downs of and value adjustments on loans and specific securities and increase in loan loss provisions				**74,982**				**0**
7. Appropriations to the fund for general banking risks				**6,518**				**15,349**
8. Write-downs of and value adjustments on investments, shares in affiliated companies and securities treated as fixed assets				**10,363**				**17,563**
9. Taxes on income				**221**				**–216**
10. Profit transferred due to a profit pooling, profit transfer or partial profit transfer agreement				**185,301**				**238,375**
11. Net income for the year				**0**				**0**
Total expenses				**1,073,210**				**983,589**

Income

	1 Jan.–31 Dec. 2019				1 Jan.–31 Dec. 2018			
	EUR in thousands	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		852,625				738,140		
less negative interest from lending and money market transactions		–1,596	851,029			–2,837	735,303	
b) fixed-income securities and debt register claims		–144				232		
less negative interest from fixed-income securities and debt register claims		–723	–867	**850,162**		–701	–469	**734,834**
2. Current income from								
a) shares and other non-fixed income securities			0				0	
b) investments			9				151	
c) shares in affiliated companies			0	**9**			0	**151**
3. Commission income				**203,241**				**170,010**
4. Income from write-ups on loans and specific securities and from reversal of loan loss provisions				**0**				**12,941**
5. Withdrawals from the fund for general banking risks				**19,798**				**65,653**
Total income				**1,073,210**				**983,589**

Notes

KfW IPEX-Bank is registered in the Commercial Register of the Local Court of Frankfurt am Main:

Company number: HRB 79744
Company name: KfW IPEX-Bank GmbH
Headquarters: Frankfurt am Main

Accounting and valuation regulations

The individual financial statements of KfW IPEX-Bank have been prepared in accordance with the requirements of the German Commercial Code (*Handelsgesetzbuch – HGB)*, the German Ordinance Regarding the Accounting System for Banks and Financial Services Institutions (*Verordnung über die Rechnungslegung der Kreditinstitute und Finanzdienstleistungsinstitute – RechKredV*) and the German Limited Liability Companies Act (*Gesetz betreffend die Gesellschaften mit beschränkter Haftung – GmbHG*), as well as in accordance with the requirements for Pfandbrief banks (in particular the German Pfandbrief Act *[Pfandbriefgesetz – PfandBG]*). Disclosures on individual balance sheet items, which may be provided either in the balance sheet or in the notes, are provided in the Notes.

Cash reserves, loans and advances to banks and customers and other assets are recognised at cost, par or at a lower fair value. Differences between par values and lower amounts disbursed for loans and advances that have interest-like characteristics are included in deferred income and are recognised through the income statement under net interest income on a straight-line basis over their loan term.

Securities held as current assets are valued strictly at the lower of cost or market in accordance with Section 253 (4) sentence 1 of the German Commercial Code. Insofar as these securities are pooled together with derivative financial instruments to form a valuation unit for hedging interest rate risks, they are valued at amortised cost – to the extent that there were compensating effects in the underlying and hedging transactions.

Fixed-asset securities are valued according to the moderate lower of cost or market principle in accordance with Section 253 (3) of the German Commercial Code; in the event of a permanent impairment in value, securities are written down. Valuation units have been valued at amortised cost in accordance with Section 254 of the German Commercial Code.

There are no held-for-trading securities.

Structured securities with embedded derivatives are accounted for as one unit and are valued strictly at the lower of cost or market.

Investments are recognised at acquisition cost. If there is a permanent impairment in value, they are written down to the lower value.

Property, plant and equipment and intangible assets are reported at acquisition or production cost as defined by Section 255 of the German Commercial Code, reduced by ordinary depreciation/amortisation over their expected useful life. Additions and disposals of fixed assets during the course of the year are depreciated pro rata temporis (i.e. on an exact monthly basis). A compound item is set up for low-value fixed assets with purchase costs of EUR 250 to EUR 1,000, which is released to the income statement on a straight-line basis over the year of acquisition and the next four years. The bank does not capitalise internally generated intangible assets in accordance with Section 248 (2) of the German Commercial Code.

Statutory write-ups are made for all assets in accordance with Section 253 (5) of the Code.

Liabilities are recognised at their repayment value in accordance with Section 253 (1) sentence 2 of the Commercial Code. Differences between agreed higher repayment amounts and issue amounts are recognised in Prepaid expenses and deferred charges (Section 250 (3) of the Code).

KfW IPEX-Bank issues registered Public Pfandbriefe. These are purchased in their entirety by KfW. The Pfandbriefe are accordingly reported under Liabilities to banks.

The balance sheet template is based on the requirements in force for Pfandbrief banks (notes to the Template 1 annex, Section 2 of the Ordinance Regarding the Accounting System for Banks and Financial Services Institutions).

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

Provisions for pensions and similar commitments are calculated using actuarial principles in accordance with the projected unit credit method. The calculation is performed on the basis of Dr Klaus Heubeck's '2018 G Mortality and Disability Tables', applying the following actuarial assumptions:

	31 Dec. 2019
	in % p.a.
Interest rate for accounting purposes	2.71
Projected unit credit dynamics	2.20
Index-linking of pensions[1)]	1.00 to 2.50
Staff turnover rate	4.50

[1)] Varies according to applicable pension scheme

Since 2019, the effect resulting from year-on-year changes in the discount rate used for discounting pension obligations has been reported under other operating income, having previously been reported under administrative expense. The previous year's figures have not been adjusted.

Other provisions are reported in the amount of their required recourse value as dictated by prudent business judgement, taking future price/cost increases into account (Section 253 (1) sentence 2 of the German Commercial Code). Provisions with a residual term of more than one year are discounted using average market interest rates published monthly by the Deutsche Bundesbank, on the basis of their residual term (average interest rate over the last ten years for provisions for pension commitments; average interest rate over the last seven years for other provisions) (Section 253 (2) of the Code). The net method is used to calculate present value. Here, a present value addition to the provision is taken and the initial discounting effect is offset against administrative expense. The interest effect resulting from subsequent valuation is reported under net interest income and its amount is disclosed in the Notes.

Prepaid expenses and deferred charges and deferred income as defined by Section 250 of the Code are established for expenses and income occurring before the balance sheet date to the extent that they represent expense or income related to a specific period after the balance sheet date.

Deferred tax assets result from differences in value between the commercial and the tax balance sheet with regard to the valuation of loans and advances to banks and customers, investments and intangible assets as well as the recognition and valuation of provisions and of the fund for general banking risks. There are no deferred tax liabilities. The option under Section 274 (1) of the German Commercial Code not to recognise deferred tax assets has been exercised.

Allowance has been made for risks arising from the lending business through the recognition of value adjustments and loan loss provisions. The risk provisions recognised in the balance sheet for the lending business consist of specific loan loss provisions affecting net income (the amount corresponds to the difference between the carrying amount of the loan and the present value of the expected cash inflows from interest and principal repayments as well as the payment streams from collateral) and portfolio loan loss provisions for loans and advances for which no specific loan loss provisions have been made.

In addition, risk provisions are recognised for contingent liabilities and irrevocable loan commitments, both for individually identified risks (specific loan loss provisions) and for impairments that have not yet been identified individually (portfolio loan loss provisions).

The bank recognises portfolio loan loss provisions for foreseeable but not yet individually substantiated counterparty default risks in the lending business in the amount of the expected 12-month loss or, if there is a significant deterioration in default risk in comparison to the date of initial recognition, in the amount of the credit loss expected over the residual term of the exposure.

Additions and reversals are reported net under the item ‘Write-downs of and value adjustments on loans and specific securities and increase in loan loss provisions’ or ‘Income from write-ups on loans and specific securities and from reversal of loan loss provisions’. Use is made in the income statement of options to offset pursuant to Section 340f (3) and Section 340c (2) of the Commercial Code. Interest income on non-performing loans is recognised in principle on the basis of expectations.

The valuation of interest rate-related transactions in the banking book (*Refinanzierungsverbund*) reflects KfW IPEX-Bank's interest rate risk management. The principle of prudence as required under the German Commercial Code is taken into account by establishing a provision in accordance with Section 340a (1) in conjunction with Section 249 (1) sentence 1, second alternative of the Code for any excess obligations resulting from the valuation of the interest-related banking book. The requirements set forth in the statement of the Banking Panel of Experts of the Institute of Public Auditors in Germany (*Institut der Wirtschaftsprüfer in Deutschland – IDW*) on the loss-free valuation of the banking book (IDW RS BFA 3) are taken into account. In order to determine any excess obligation, KfW IPEX-Bank calculates the balance of all discounted future net income of the banking book. Together with net interest income, this includes relevant commission income, administrative expenses and risk costs in the amount of expected losses. No such provision for contingent losses was required in the reporting year.

In the context of the ongoing period of low interest rates, 2019 once again saw negative interest rates on the money and capital markets. Disclosure requirements for the income statement under German commercial law include separate disclosure of negative interest under net interest income – in the form of new items or a breakdown of existing items – wherever these rates have a material impact.

The analysis performed for KfW IPEX-Bank found that in 2019, amounts with a material impact occurred in connection with liabilities-side promissory note loans, money market transactions and interest-bearing securities and in relation to prepayment fees in the lending business.

Profit shares in relation to the silent partner contribution of KfW are reported under the item 'Profit transferred due to a profit pooling, profit transfer or partial profit transfer agreement'.

Expenditure for the EU bank levy is reported under the item 'Administrative expense', as specified by the Institute of Public Auditors in Germany.

All additions to and withdrawals from the fund for general banking risks appear as separate items in the income statement in accordance with Section 340g of the German Commercial Code.

Group affiliation

Consolidated financial statements are not required to be prepared. KfW IPEX-Bank is included in the consolidated financial statements of KfW Group, Frankfurt am Main. The IFRS-compliant consolidated financial statements are published in German in the electronic edition of the Federal Gazette (*Bundesanzeiger*).

Notes on assets

Loans and advances to banks and customers

Remaining term structure of loans and advances

	Due on demand	Maturity with agreed term or period of notice				Pro rata interest	Total
		Up to 3 months	More than 3 months to 1 year	More than 1 year to 5 years	More than 5 years		
	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands
Loans and advances to banks[1]	221,216	97,141	380,032	385,906	40,572	18,183	1,143,050
(as of 31 Dec. 2018)	*137,468*	*57,165*	*578,581*	*371,549*	*73,275*	*22,027*	*1,240,065*
Loans and advances to customers	0	889,319	2,804,260	11,162,534	8,935,565	109,372	23,901,050
(as of 31 Dec. 2018)	*0*	*1,047,702*	*2,619,972*	*10,866,634*	*9,200,294*	*110,779*	*23,845,381*
Total	**221,216**	**986,460**	**3,184,292**	**11,548,440**	**8,976,137**	**127,555**	**25,044,100**
(as of 31 Dec. 2018)	*137,468*	*1,104,867*	*3,198,553*	*11,238,183*	*9,273,569*	*132,806*	*25,085,446*
in %	**1**	**4**	**13**	**46**	**36**	**0**	**100**

[1] Loans and advances due on demand including municipal loans

	Loans and advances to		Total
	Banks	Customers	
of which to:	EUR in thousands	EUR in thousands	EUR in thousands
Shareholder	0	0	**0**
Affiliated companies	234,530	24	**234,554**
Companies in which KfW IPEX-Bank holds a stake	0	0	**0**
Subordinated assets	0	7,960	**7,960**

Bonds and other fixed-income securities

Listed/marketable securities

	31 Dec. 2019	31 Dec. 2018
	EUR in thousands	EUR in thousands
Listed securities	499,029	1,635,190
Unlisted securities	0	0
Marketable securities	**499,029**	**1,635,190**

The ‘Bonds and other fixed-income securities’ item totalling EUR 499 million (previous year: EUR 1,635 million) mainly contains a portfolio of high-quality and highly liquid KfW securities (HQLA portfolio) in the amount of EUR 401 million (previous year: EUR 1,539 million), with KfW as an affiliated company. The reduction of EUR 1,138 million was due to disposals of corresponding KfW securities. There are no securities in the portfolio that fall due during the year following the balance sheet date (previous year: EUR 162 million).

The HQLA portfolio is assigned to current assets and is hedged by means of asset swaps. ‘Loss peaks’ arising from fluctuations in the bonds and their associated asset swaps have a direct impact on the income statement. Other securities (EUR 0.1 billion) are assigned to fixed assets.

Fixed assets

	Change	Residual book value	Residual book value
	2019[1)]	31 Dec. 2019	31 Dec. 2018[2)]
	EUR in thousands	EUR in thousands	EUR in thousands
Investments	–17,026	26,585	43,611
Bonds and other fixed-income securities	1,860	98,043	96,183
of which: included in valuation units within the meaning of Section 254 of the German Commercial Code (HGB)	*0*	*0*	*0*
Total	**–15,166**	**124,628**	**139,794**

1) Including exchange rate changes

2) The difference between the residual book value of the investments as of 31 December 2018 in the amount of EUR 10,743,000 and the residual book value published in last year's report of EUR 54,354,000 is the result of depreciation/impairment entered subsequently for the fund investments Sentient Global Resources Funds II through IV, which were not included in the presentation of fixed assets.

	Purchase/ production costs	Additions	Disposals	Transfers	Purchase/ production costs as of 31 Dec. 2019	Cumulative depreciation/impairment as of 1 Jan. 2019
	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands
Intangible assets	431	0	0	0	431	172
Property, plant and equipment[1)]	818	106	105	0	819	408
Sum	**1,249**	**106**	**105**	**0**	**1,250**	**580**
Total						

	Depreciation/ impairment 2019	Write-ups	Cumulative depreciation/ impairment in the financial year			Cumulative depreciation/ impairment as of	Residual book value 31 Dec. 2019	Residual book value 31 Dec. 2018
			Additions	Disposals	Transfers	31 Dec. 2019		
	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	49	0	0	0	0	222	209	259
Property, plant and equipment[1)]	113	0	17	105	0	416	403	410
Sum	**162**	**0**	**17**	**105**	**0**	**637**	**612**	**669**
Total							**125,240**	**140,463**

1) Of which: as of 31 December 2019: – total value of plant and equipment: EUR 403,000
– total value of land and buildings used for the bank's activities: EUR 0

Bonds and other fixed-income securities intended as a permanent part of business operations have been included under fixed assets.

Bonds and other fixed-income securities held under fixed assets have been valued in accordance with the moderate lower of cost or market principle. The book value of these securities amounts to EUR 98 million. No write-downs were avoided as of the balance sheet date.

Disclosures on shareholdings

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

Company name and headquarters		Capital share	Equity	Net income for the year
		in %	USD in thousands	USD in thousands
1.	Sperber Rail Holdings Inc., Wilmington, USA[1)]	100.0	378	233
2.	Bussard Air Leasing Ltd. i. L., Dublin, Ireland[2)]	100.0	–2,152	165

[1)] Company figures available as of 31 December 2018 only
[2)] Company figures available as of 31 December 2016 only

Assets held in trust

	31 Dec. 2019	31 Dec. 2018	Change
	EUR in thousands	EUR in thousands	EUR in thousands
Loans and advances to banks	0	38	–38
Loans and advances to customers	372,181	368,442	3,739
Shares	523	193	330
Total	**372,704**	**368,673**	**4,031**

In addition to assets held in trust of EUR 373 million that are recognised in the balance sheet and are owned by the bank in civil-law terms, KfW IPEX-Bank also administers the E&P trust business totalling EUR 24.4 billion (previous year: EUR 23.0 billion) on behalf of KfW as an indirect agent.

Other assets

Other assets totalling EUR 23 million (previous year: EUR 121 million) mainly include receivables from KfW Beteiligungsholding GmbH arising from excess payment – prior to the formation of the CIT fiscal unity – of capital gains tax and the solidarity surcharge to the tax authorities of EUR 13 million (previous year: EUR 18 million), other assets from interest rate options amounting to EUR 6 million (previous year: EUR 6 million) and receivables from the tax authorities arising from tax advances and tax refund claims totalling EUR 2 million (previous year: EUR 2 million).

Prepaid expenses and deferred charges

Prepaid expenses and deferred charges of EUR 34 million (previous year: EUR 15 million) include, in particular, capitalised premium amounts from purchases of receivables of EUR 21 million (previous year: EUR 0 million) and upfront interest payments from swaps amounting to EUR 13 million (previous year: EUR 14 million).

Notes on liabilities and equity

Liabilities to banks and customers

Maturities structure of liabilities

	Due on demand	Maturity with agreed term or period of notice				Pro rata interest	Total
		Up to 3 months	More than 3 months to 1 year	More than 1 year to 5 years	More than 5 years		
	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands
Liabilities to banks	26,300	2,744,129	2,954,043	9,678,865	5,062,333	76,386	20,542,056
(as of 31 Dec. 2018)	*224,022*	*2,960,110*	*3,911,162*	*8,891,561*	*5,413,326*	*83,490*	*21,483,671*
Liabilities to customers – other liabilities	18,427	81,569	0	0	0	10,399	110,395
(as of 31 Dec. 2018)	*4,221*	*179,608*	*0*	*0*	*0*	*11,390*	*195,219*
Total	**44,727**	**2,825,698**	**2,954,043**	**9,678,865**	**5,062,333**	**86,785**	**20,652,451**
(as of 31 Dec. 2018)	*228,243*	*3,139,718*	*3,911,162*	*8,891,561*	*5,413,326*	*94,880*	*21,678,890*
in %	**0**	**14**	**14**	**47**	**25**	**0**	**100**

	Liabilities to		Total
	Banks	Customers	
of which to:	EUR in thousands	EUR in thousands	EUR in thousands
Shareholder	0	0	0
Affiliated companies	20,455,281	0	20,455,281
Companies in which KfW IPEX-Bank holds a stake	0	0	0

Special information for Pfandbrief banks

Cover as per Section 35 (1) nº 7 of the German Ordinance Regarding the Accounting System for Banks and Financial Services Institutions (RechKredV)

		31 Dec. 2019	31 Dec. 2018
		EUR in millions	EUR in millions
Public Pfandbriefe in issue		**1,031**	**997**
Cover assets			
Loans and advances to customers		1,213	1,048
a) mortgage loans		*0*	*0*
b) municipal loans		*487*	*375*
c) other loans and advances		*726*	*673*
Bonds and other fixed-income securities		75	150
Cover assets total		**1,288**	**1,198**
Over-collateralisation	**absolute value**	**257**	**201**
	in %	**25**	**20**

Information in accordance with Section 28 of the German Pfandbrief Act (PfandBG)

Information on total liabilities and maturity structure

Section 28 (1) nos 1 and 3 of the German Pfandbrief Act Relation between Pfandbriefe in issue and cover pool	Nominal value		Net present value		Risk-adjusted net present value including forex stress[1]	
	31 Dec. 2019 EUR in millions	31 Dec. 2018 EUR in millions	31 Dec. 2019 EUR in millions	31 Dec. 2018 EUR in millions	31 Dec. 2019 EUR in millions	31 Dec. 2018 EUR in millions
Total value of Pfandbriefe in issue including derivatives	1,031	997	1,051	1,014	1,148	1,117
of which: derivatives	*0*	*0*	*0*	*0*	*0*	*0*
Total value of cover pools including derivatives	1,288	1,198	1,367	1,257	1,404	1,348
of which: derivatives	*0*	*0*	*0*	*0*	*0*	*0*
Over-collateralisation absolute value	**257**	**201**	**316**	**243**	**256**	**230**
in %	**25**	**20**	**30**	**24**	**22**	**21**

[1] Both the risk-adjusted net present value and the forex stress are calculated statically.

Section 28 (1) no 2 of the German Pfandbrief Act Maturity structure and fixed-interest period	Pfandbriefe in circulation		Cover pool	
	31 Dec. 2019 EUR in millions	31 Dec. 2018 EUR in millions	31 Dec. 2019 EUR in millions	31 Dec. 2018 EUR in millions
up to 6 months	0	0	67	59
more than 6 to 12 months	0	0	66	58
more than 12 to 18 months	50	0	67	209
more than 18 months to 2 years	0	75	66	59
more than 2 to 3 years	239	50	121	118
more than 3 to 4 years	209	237	143	104
more than 4 to 5 years	164	206	188	124
more than 5 to 10 years	369	428	350	304
more than 10 years	0	0	221	164

Section 28 (1) no 9 of the German Pfandbrief Act	31 Dec. 2019 in %	31 Dec. 2018 in %
Proportion of fixed-rate		
– cover pool	*31*	*21*
– Pfandbriefe	*41*	*40*

Section 28 (1) no 10 of the German Pfandbrief Act (as per Section 6 of the Pfandbrief Net Present Value Regulation)	Net present value	
	31 Dec. 2019 EUR in millions	31 Dec. 2018 EUR in millions
AUD	22	23
USD	–95	–24

Structure of cover assets

	Section 28 (1) nos 4 and 5 of the German Pfandbrief Act Total value of claims registered				Section 28 (1) no 8 of the German Pfandbrief Act Total value of claims exceeding thresholds	
	Equalisation claims within the meaning of Section 20 (2) no 1 of the Pfandbrief Act		Claims within the meaning of Section 20 (2) no 2 of the Pfandbrief Act			
	31 Dec. 2019	31 Dec. 2018	31 Dec. 2019	31 Dec. 2018	31 Dec. 2019	31 Dec. 2018
	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions
Total	**0**	**0**	**0**	**0**	**0**	**0**
of which: covered bonds[1]			*0*	*0*		

[1] Within the meaning of Article 129 of Regulation (EU) no 575/2013

	Section 28 (3) no 1 of the German Pfandbrief Act Total value of claims used by size class	
	31 Dec. 2019	31 Dec. 2018
	EUR in millions	EUR in millions
up to EUR 10 million	3	7
more than EUR 10 million to EUR 100 million	421	132
more than EUR 100 million	864	1,059
Total	**1,288**	**1,198**

Section 28 (3) nº 2 of the German Pfandbrief Act Total value of claims used by country and debtor class												
	Government				Regional authorities				Local authorities			
	31 Dec. 2019		31 Dec. 2018		31 Dec. 2019		31 Dec. 2018		31 Dec. 2019		31 Dec. 2018	
	a[1)]	b[2)]	a[1)]	b[2)]	a[1)]	b[2)]	a[1)]	b[2)]	a[1)]	b[2)]	a[1)]	b[2)]
	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	EUR in millions	EUR in millions	EUR in millions
Federal Republic of Germany	0	443	0	505	0	0	0	0	0	40	0	40
Denmark	0	0	0	0	0	0	0	0	0	0	0	0
Finland	0	0	0	0	0	0	0	0	0	0	0	0
France	124	0	0	0	0	0	0	0	0	0	0	0
United Kingdom	0	83	0	0	0	0	0	0	0	0	0	0
Austria	0	17	0	3	0	0	0	0	0	0	0	0
Total	**124**	**543**	**0**	**508**	**0**	**0**	**0**	**0**	**0**	**40**	**0**	**40**

	Other debtors				Total		thereof: guarantees provided to promote export finance	
	31 Dec. 2019		31 Dec. 2018		31 Dec. 2019	31 Dec. 2018	31 Dec. 2019	31 Dec. 2018
	a[1)]	b[2)]	a[1)]	b[2)]				
	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions
Federal Republic of Germany	165	25	246	0	673	790	468	505
Denmark	0	297	0	296	297	296	297	296
Finland	0	94	0	108	94	109	94	109
France	0	0	0	0	124	0	0	0
United Kingdom	0	0	0	0	83	0	83	0
Austria	0	0	0	0	17	3	17	3
Total	**165**	**416**	**246**	**404**	**1,288**	**1,198**	**959**	**913**

[1)] Owed
[2)] Guaranteed

Claims outstanding

	Section 28 (3) nº 3 of the German Pfandbrief Act Total value of claims outstanding for at least 90 days		Section 28 (3) nº 3 of the German Pfandbrief Act Total value of claims where the arrear is at least 5% of the claim	
	31 Dec. 2019	31 Dec. 2018	31 Dec. 2019	31 Dec. 2018
	EUR in millions	EUR in millions	EUR in millions	EUR in millions
Government	0	0	0	0
Regional authorities	0	0	0	0
Local authorities	0	0	0	0
Other debtors	0	0	0	0
Total	**0**	**0**	**0**	**0**

Liabilities held in trust

	31 Dec. 2019	31 Dec. 2018	Change
	EUR in thousands	EUR in thousands	EUR in thousands
Liabilities to banks	0	0	0
Liabilities to customers	372,704	368,673	4,031
Total	**372,704**	**368,673**	**4,031**

Other liabilities
Other liabilities totalling EUR 256 million (previous year: EUR 252 million) mainly consist of the liability to KfW Beteiligungsholding GmbH resulting from the existing profit transfer agreement of EUR 166 million (previous year: EUR 220 million) and the balancing item for the foreign currency translation of derivative hedges of EUR 60 million (other assets in the previous year).

Deferred income
Deferred income totalling EUR 17 million (previous year: EUR 19 million) mainly comprises discounts from upfront interest payments from swaps that have been received but do not yet impact income of EUR 14 million (previous year: EUR 16 million) and discounts from receivables purchases totalling EUR 3 million (previous year: EUR 3 million).

Provisions
In addition to provisions for pensions and similar commitments totalling EUR 211 million (previous year: EUR 180 million) and tax provisions amounting to EUR 4 million (previous year: EUR 5 million), other provisions of EUR 63 million (previous year: EUR 60 million) were recognised as of 31 December 2019. These other provisions relate in particular to liabilities to staff (EUR 26 million), provisions for credit risks (EUR 20 million), archiving costs (EUR 10 million) and provisions for contingent losses on derivatives concluded in connection with the lending business (EUR 3 million). All of the provisions that had been recognised for the repayment of processing fees pursuant to the rulings by the German Federal Court of Justice (*Bundesgerichtshof – BGH*) in July 2017 (previous year: EUR 2 million) were reversed.

The difference between provisions for pension commitments recognised on the basis of the average market interest rate from the last ten financial years and provisions recognised based on the average market interest rate from the last seven financial years, in accordance with Section 253 (6) sentence 1 of the German Commercial Code, came to EUR 38 million as of 31 December 2019 (previous year: EUR 39 million).

Subordinated liabilities

On 8 April 2019, the Management Board of KfW IPEX-Bank decided to terminate prematurely the subordinated loan of USD 500 million that was due for repayment on 31 December 2019 in accordance with Section 4 (2) nº 3 of the loan agreement and to repay it to KfW on 30 August 2019.

In a letter dated 24 May 2019, the German Federal Financial Supervisory Authority granted the authorisation required pursuant to Article 77 (b), 78 (1) (b) of the CRR for the early termination and repayment of the subordinated loan.

Interest payments for the subordinated loan that was terminated were made each quarter and, up to the time of repayment, came to the equivalent of EUR 12 million (previous year: EUR 15 million).

As of 31 December 2019, there were therefore no longer any subordinated liabilities.

Other required disclosures on liabilities and equity

Contingent liabilities

Sector department	31 Dec. 2019	31 Dec. 2018	Change
	EUR in millions	EUR in millions	EUR in millions
Power, Renewables and Water	764	593	171
Aviation, Mobility & Transport	426	344	82
Maritime Industries	244	46	198
Industries and Services	156	210	–54
Financial Institutions, Trade and Commodity Finance	150	158	–8
Infrastructure	147	145	2
Basic Industries	89	111	–22
Equity Portfolio	0	0	0
Total	**1,976**	**1,607**	**369**

New guarantees given in the 2019 financial year amounted to EUR 545 million. In contrast, a total of EUR 176 million was redeemed.

Irrevocable loan commitments

Sector department	31 Dec. 2019	31 Dec. 2018	Change
	EUR in millions	EUR in millions	EUR in millions
Basic Industries	2,083	1,980	103
Power, Renewables and Water	1,836	1,746	90
Maritime Industries	1,600	1,212	388
Industries and Services	1,400	832	568
Infrastructure	983	1,055	–72
Aviation, Mobility & Transport	708	1,029	–321
Financial Institutions, Trade and Commodity Finance	540	569	–29
Equity Portfolio	0	0	0
Total	**9,150**	**8,423**	**727**

Total irrevocable loan commitments as of 31 December 2019 stood at EUR 9,150 million. Risks from these transactions are taken into account by creating portfolio loan loss provisions and specific loan loss provisions.

Required disclosures on the income statement

Geographical markets in accordance with Section 34 (2) nº 1 of the German Ordinance Regarding the Accounting System for Banks and Financial Services Institutions (RechKredV)

	31 Dec. 2019			31 Dec. 2018		
	Frankfurt	London	Total	Frankfurt	London	Total
	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands
Interest income	844,604	5,558	850,162	725,626	9,208	734,834
Current income from						
a) shares and other non-fixed-income securities	0	0	0	0	0	0
b) investments	9	0	9	151	0	151
c) shares in affiliated companies	0	0	0	0	0	0
Commission income	203,221	20	203,241	169,966	44	170,010
Other operating income	6,421	13,376	19,797	61,274	4,379	65,653
Total	**1,054,255**	**18,954**	**1,073,209**	**957,017**	**13,631**	**970,648**

Interest expense and interest income

Valuation of provisions led to interest expense from compounding of EUR 7,144 thousand (previous year: EUR 6,731 thousand).

In 2019, negative interest amounts arose to a significant extent in connection with liabilities-side promissory note loans in the amount of EUR 5,794 thousand (previous year: EUR 5,340 thousand) and interest-bearing securities in the amount of EUR 723 thousand (previous year: EUR 701 thousand). Furthermore, negative interest amounts arose in connection with money market transactions – EUR 3,202 thousand (previous year: EUR 2,865 thousand) from call money and term borrowings and EUR 802 thousand (previous year: EUR 709 thousand) from call money and term lending – and also in connection with prepayment fees for loan agreements that were repaid early in the amount of EUR 794 thousand (previous year: EUR 2,128 thousand).

Other operating expense
Other operating expense amounted to EUR 28 million (previous year: EUR 23 million). This primarily comprised the effect of changes in interest rates from the valuation of provisions in connection with staff pension commitments owing to the change in the way that figures are reported in the income statement, amounting to EUR 21 million, and realised and unrealised exchange losses from foreign currency valuation in the amount of EUR 4 million (previous year: EUR 21 million).

Other operating income
Other operating income of EUR 20 million (previous year: EUR 66 million) chiefly relates to realised and unrealised exchange gains from foreign currency valuation totalling EUR 11 million (previous year: EUR 36 million), income from the reversal of provisions no longer required of EUR 6 million (previous year: EUR 27 million) and income from services provided to group companies totalling EUR 2 million (previous year: EUR 2 million).

Profit transferred due to a profit pooling, profit transfer or partial profit transfer agreement

	31 Dec. 2019	31 Dec. 2018
	EUR in millions	EUR in millions
Annual profit to be transferred due to the profit transfer agreement concluded with KfW Beteiligungsholding GmbH	166	220
Profit sharing for the KfW silent partner contribution[1)]	19	18
Total	**185**	**238**

[1)] Change in reporting as of 31 December 2018

Appropriation of profit
As part of the implementation of the existing profit transfer agreement, the annual profit (EUR 166 million) is transferred to KfW Beteiligungsholding GmbH, subject to approval of the financial statements by the general shareholders' meeting. In this respect, a separate proposal or resolution regarding the appropriation of profit is not required.

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 average spot exchange rates applicable as of 31 December 2019.

Expenses and income resulting from currency conversions have been included in other operating income, taking into account the principle of imparity (*Imparitätsprinzip*).

Forward transactions were converted with due observance of the regulations on special cover or cover in the same currency. This had no effect on the income statement.

As of 31 December 2019, total assets denominated in foreign currency converted in accordance with Section 340h in conjunction with Section 256a of the German Commercial Code amounted to EUR 15.6 billion (previous year: EUR 16.2 billion), of which EUR 14.4 billion related to loans and advances to customers.

Total liabilities denominated in foreign currency amounted to EUR 15.6 billion (previous year: EUR 16.2 billion), of which the majority (EUR 10.5 billion) related to liabilities to banks.

Other financial liabilities

Total call obligations arising in connection with equity finance transactions added up to EUR 4 million (previous year: EUR 4 million).

In individual cases, KfW IPEX-Bank employees perform specific functions on governing bodies of companies in which KfW IPEX-Bank holds investments or with which it maintains another, relevant creditor relationship. Risks arising in connection with these functions are covered by directors' and officers' (D&O) liability insurance taken out by the respective company. Should a case arise in which there is no valid insurance cover, liability risks may arise for KfW IPEX-Bank.

Auditor's fee

Information on the total auditing fee can be found in the Notes to the consolidated financial statements of KfW Group.

Valuation units

Listed below are the volumes of underlying transactions in securities held as the liquidity reserve that are hedged in valuation units against interest rate risks as of the balance sheet date.

	Nominal value		Carrying amount		Fair value	
	31 Dec. 2019	31 Dec. 2018	31 Dec. 2019	31 Dec. 2018	31 Dec. 2019	31 Dec. 2018
	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions
Liquidity reserve						
Bonds and other fixed-income securities	400	1,535	401	1,539	411	1,548
Total	**400**	**1,535**	**401**	**1,539**	**411**	**1,548**

KfW IPEX-Bank uses derivatives only to hedge open positions. The option to account for economic hedges in the form of valuation units on the balance sheet is exercised solely in relation to securities held in the banking book as designated underlying transactions. The net hedge presentation method is applied to the effective portions of the valuation units created.

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

The offsetting effect of the underlying and the hedging transactions is verified through a critical terms match. The critical terms match ensures that fluctuations in value are offset both retrospectively and prospectively through the identification of parameters affecting the value of the underlying and hedging transactions.

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

In connection with hedging interest rate risks in the banking book, the derivative financial instruments used for this purpose and the interest-bearing underlying transactions form part of asset/liability management, along with valuation units in accordance with Section 254 of the German Commercial Code. KfW IPEX-Bank manages the market value of all interest-bearing transactions in the banking book as one unit. As of 31 December 2019, there was a positive present value.

Derivatives reporting

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

1. Interest rate-related forward transactions/derivative products
   - Interest rate swaps
   - Caps/floors
2. Currency-related forward transactions/derivative products
   - Cross-currency swaps
   - FX swaps
   - FX forward transactions

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

In the following table, the calculation of market values for all contract types is based on the market valuation method. It discloses the positive and negative fair values of derivative positions as of 31 December 2019.

Derivative transactions – volumes

	Nominal value		Fair values positive	Fair values negative
	31 Dec. 2019	31 Dec. 2018	31 Dec. 2019	31 Dec. 2019
	EUR in millions	EUR in millions	EUR in millions	EUR in millions
Contracts with interest rate risks				
Interest rate swaps	26,087	25,014	874	1,016
Swaptions	0	0	0	0
Caps/floors	452	489	3	3
Total	**26,539**	**25,503**	**877**	**1,019**
Contracts with foreign exchange risks				
Cross-currency swaps	1,104	1,127	18	52
FX swaps	3,876	3,833	2	57
FX forward transactions	128	125	5	5
Total	**5,108**	**5,085**	**25**	**114**
Share and other price risks	**0**	**0**	**0**	**0**
Credit derivatives	**0**	**0**	**0**	**0**
Total	**31,647**	**30,588**	**902**	**1,133**

Derivative transactions – maturities by nominal volume

	Interest rate risks		Foreign exchange risks		Credit derivatives	
	31 Dec. 2019	31 Dec. 2018	31 Dec. 2019	31 Dec. 2018	31 Dec. 2019	31 Dec. 2018
	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions
Maturity						
– up to 3 months	227	520	3,056	3,215	0	0
– more than 3 months to 1 year	1,433	1,147	1,078	806	0	0
– more than 1 year to 5 years	10,584	10,612	841	950	0	0
– more than 5 years	14,295	13,224	133	114	0	0
Total	**26,539**	**25,503**	**5,108**	**5,085**	**0**	**0**

Derivative transactions – counterparties

	Nominal value		Fair values positive	Fair values negative
	31 Dec. 2019	31 Dec. 2018	31 Dec. 2019	31 Dec. 2019
	EUR in millions	EUR in millions	EUR in millions	EUR in millions
Counterparties				
OECD banks	20,982	20,666	65	1,105
Non-OECD banks	0	0	0	0
Other counterparties	10,554	9,808	816	28
Public sector	111	114	21	0
Total	**31,647**	**30,588**	**902**	**1,133**

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 23,905 million as of 31 December 2019 (previous year: EUR 22,135 million). In addition, financial guarantees amounting to EUR 175 million (previous year: EUR 213 million) were administered.

	31 Dec. 2019	31 Dec. 2018	Change
	EUR in millions	EUR in millions	EUR in millions
Market business	8.972	8,549	423
Trust business	10,617	10,245	372
Other[1)]	4,316	3,341	975
Total	**23,905**	**22,135**	**1,770**

[1)] Including refinancing for CIRR ship financings by third-party banks totalling EUR 3,922 million (previous year: EUR 3,047 million)

The loans in the name of third parties and for third-party account mainly relate to syndicated loans for which KfW IPEX-Bank is the lead bank and, as such, handles the loan accounting for the account of the other syndicate members.

Personnel
The table below shows the average number of staff employed during the financial year.

	2019	2018	Change
Female employees	387	331	56
Male employees	354	362	–8
Staff not covered by collective agreements	576	559	17
Staff covered by collective agreements	165	134	31
Total	**741**	**693**	**48**

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

Total remuneration paid to active members of the Management Board in financial year 2019 was EUR 2,005 thousand. Details of the remuneration paid to the members of the Management Board are given in the following table.

Annual remuneration[1)]

	Salary	Variable remuneration[2)]	Other remuneration[3)]	Total
	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands
Klaus R. Michalak (CEO)	410	99	15	524
Markus Scheer	410	76	26	512
Claudia Schneider	410	34	10	454
Andreas Ufer	410	71	36	516
Total	**1,638**	**280**	**87**	**2,005**

1) Differences may occur in the table due to rounding.
2) Variable remuneration relates to the payment of performance-based bonuses for work performed as a member of the Management Board and also contains deferred bonus components from previous years.
3) Other remuneration mainly comprises use of company cars and insurance premiums as well as taxes incurred on such remuneration.

Deferred performance-based bonuses in relation to previous years in the amount of EUR 35 thousand and retirement pension payments totalling EUR 557 thousand were paid to former members of the Management Board in the 2019 financial year.

As of 31 December 2019, provisions for pensions for former members of the Management Board and their surviving dependents stood at a total of EUR 13,845 thousand.

Total remuneration paid to the members of the Board of Supervisory Directors was EUR 110 thousand (net). Attendance fees amounting to EUR 66 thousand (net) were also paid. Remuneration is structured as follows: Annual remuneration amounts to EUR 22 thousand (net) for membership of the Board of Supervisory Directors and EUR 29 thousand (net) for the chairmanship. In addition, attendance fees of EUR 1 thousand are paid for meetings of the Board of Supervisory Directors and the Loan, Executive and Audit Committees respectively, in each case pro rata where membership is for less than the whole year. Members of the Board of Supervisory Directors can also claim reimbursement of travel and other miscellaneous expenses to a reasonable extent. There were no payments made to former members of the Board of Supervisory Directors, nor to their surviving dependents. Remuneration to members of the Executive Board of KfW who, on the basis of Section 9 (1) of the Articles of Association of KfW IPEX-Bank, are members of the Board of Supervisory Directors was suspended with effect from 1 July 2011 until further notice. State Secretaries Dr Kukies and Dr Nussbaum also waived their remuneration and attendance fees.

As of 31 December 2019, there were no loans outstanding to members of the Management Board or the Board of Supervisory Directors.

Seats on statutory supervisory bodies of large corporations (Section 267 (3) of the German Commercial Code) held by legal representatives of the bank or other employees

Thomas Brehler, Department Head
Member of the Advisory Board of STEAG Energy Services GmbH, Essen (since 1 April 2018)

Subsequent events

No significant events have occurred since the end of the financial year.

Board of Supervisory Directors

Prof. Dr Joachim Nagel
(Member of the Executive Board, KfW Group)
(Chairman of the Board of Supervisory Directors)

Norbert Gasten
(KfW IPEX-Bank employee representative, Project Manager)

Guido Knittel
(KfW IPEX-Bank employee representative, Chairman of the works council)

Dieter Koch
(KfW IPEX-Bank employee representative, Project Manager)

Dagmar P. Kollmann
(Businesswoman and Supervisory Board member)

Dr Jörg Kukies
(State Secretary, Federal Ministry of Finance)

Dr Ulrich Nussbaum
(State Secretary, Federal Ministry for Economic Affairs and Energy)

Dr Stefan Peiß
(Member of the Executive Board, KfW Group)

Dr Jürgen Rupp
(Member of the Executive Board, RAG Stiftung)

Management Board

Klaus R. Michalak
(CEO)

Andreas Ufer

Markus Scheer

Claudia Schneider

Frankfurt am Main, 18 February 2020

Klaus R. Michalak **Andreas Ufer**

Markus Scheer **Claudia Schneider**

Auditor's Report

Independent auditor's report[1)]

To KfW IPEX-Bank GmbH

Report on the audit of the annual financial statements and of the management report

Opinions
We have audited the annual financial statements of KfW IPEX-Bank GmbH, which comprise the balance sheet as of 31 December 2019, and the income statement for the financial year from 1 January 2019 to 31 December 2019, and notes to the financial statements, including the recognition and measurement policies presented therein. In addition, we have audited the management report of KfW IPEX-Bank GmbH for the financial year from 1 January 2019 to 31 December 2019. In accordance with the German legal requirements, we have not audited the content of the sections "Corporate governance statement in accordance with Section 289f (4) of the German Commercial Code" and "Non-financial statement pursuant to Section 289b (2) of the German Commercial Code" of the management report.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law applicable to institutions and give a true and fair view of the assets, liabilities and financial position of the Institution as of 31 December 2019 and of its financial performance for the financial year from 1 January 2019 to 31 December 2019 in compliance with German legally required accounting principles, and
- the accompanying management report as a whole provides an appropriate view of the Institution's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the management report does not cover the sections "Corporate governance statement in accordance with Section 289f (4) of the German Commercial Code" and "Non-financial statement pursuant to Section 289b (2) of the German Commercial Code".

Pursuant to Sec. 322 (3) Sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and of the management report.

Basis for the opinions
We conducted our audit of the annual financial statements and of the management report in accordance with Sec. 317 HGB and the EU Audit Regulation (No 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the *Institut der Wirtschaftsprüfer* [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's responsibilities for the audit of the annual financial statements and of the management report" section of our auditor's report. We are independent of the Institution in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Art. 10 (2) f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Art. 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the annual financial statements and on the management report.

Key audit matters in the audit of the annual financial statements
Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the annual financial statements for the financial year from 1 January 2019 to 31 December 2019. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our opinion thereon; we do not provide a separate opinion on these matters.

[1)] Translation of the independent auditor's report issued in German language on the annual financial statements prepared in German language by the Management Board of KfW IPEX-Bank GmbH, Frankfurt am Main; the German language statements are decisive.

Below, we describe what we consider to be the key audit matters:

1. Valuation of the Power, Renewables and Water loan portfolio

Reasons why the matter was determined to be a key audit matter

The valuation of loan portfolios and the resulting estimate of any necessary specific loan loss provisions constitutes a significant area of management judgement. The identification of impaired loans and the determination of value in use or the recoverable net proceeds involve uncertainty and entail various assumptions and influencing factors, namely the financial position of the borrower, expectations of future cash flows, observable market prices and expectations of net sale prices. Minimal changes in the assumptions can lead to great variation in values.

In our audit, the valuation of the Power, Renewables and Water loan portfolio within the customer loan portfolio was a key audit matter, since it constitutes a high proportion of the overall customer credit volume of IPEX. Furthermore, there is a trend towards a reduction of government subsidies to promote renewable energies, e.g. guaranteed feed-in remunerations for electricity from renewable energy sources. This may have a negative impact on the profitability of business models based on renewable energy sources and therefore affects the debt servicing capacity of the borrowers.

With this in mind, judgemental decisions made when determining the assumptions regarding the valuation of the power, renewables and water loan portfolio can have a particularly strong impact and impairments may not be recognized.

Auditor's response

We assessed the design and operating effectiveness of the internal control system with regard to the key accounting-related lending processes. In doing so, we focused on the processes for calculating impairments, including the inputs used.

We also performed substantive procedures on a sample basis, assessing specific loan loss provisions in terms of necessity and adequacy in a test of details. We selected our sample using a risk-based approach, notably using criteria such as, in the case of project financing, the extent to which the borrower's debt servicing is dependent on electricity selling prices as well as rating class, the level of net exposure and specific loan loss provisions recognised.

In particular, we examined the significant assumptions in the impairment process. This included reviewing the estimates of the expected future cash flows from customers, in the case of project financing notably with regard to the expected electricity selling price if there is no guaranteed feed-in remuneration or fixed electricity selling price.

Our audit procedures did not lead to any reservations with respect to the valuation of the power, renewables and water loan portfolio.

Reference to related disclosures

The Institution's disclosures on the valuation of the loan portfolios (including the Power, Renewables and Water loan portfolio) are contained in the "Accounting and valuation regulations" section of the notes and also in the "Measurement of counterparty default risk" section of the management report accompanying the annual financial statements.

Other information

According to Art. 10 of the Articles of Association of IPEX, the Board of Supervisory Directors is responsible for the annual report of the Board of Supervisory Directors. In accordance with Art. 16 of the Articles of Association of KfW IPEX-Bank GmbH, the Management Board and the Board of Supervisory Directors are required to annually declare that they recognise the Public Corporate Governance Code, detailing any recommendations that have not been applied and the reasons for this, and to publish the declaration of compliance as part of the Corporate Governance Report. In all other respects, the Management Board is responsible for the other information. The other information that we obtained prior to completion of our audit comprises the following sections:

– Corporate governance statement in accordance with Section 289f (4) of the German Commercial Code
– Non-financial statement pursuant to Section 289b (2) of the German Commercial Code

Our opinions on the annual financial statements and on the management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

– is materially inconsistent with the annual financial statements, with the management report or our knowledge obtained in the audit, or
– otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Management Board and the Board of Supervisory Directors for the annual financial statements and the management report
The Management Board is responsible for the preparation of the annual financial statements that comply, in all material respects, with the requirements of German commercial law applicable to institutions, and that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Institution in compliance with German legally required accounting principles. In addition, the Management Board is responsible for such internal control as they, in accordance with German legally required accounting principles, have determined necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, the Management Board is responsible for assessing the Institution's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting, provided no actual or legal circumstances conflict therewith.

Furthermore, the Management Board is responsible for the preparation of the management report that, as a whole, provides an appropriate view of the Institution's position and is, in all material respects, consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. In addition, the Management Board is responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the management report.

The Board of Supervisory Directors is responsible for overseeing the Institution's financial reporting process for the preparation of the annual financial statements and of the management report.

Auditor's responsibilities for the audit of the annual financial statements and of the management report
Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the management report as a whole provides an appropriate view of the Institution's position and, in all material respects, is consistent with the annual financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the annual financial statements and on the management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sec. 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the *Institut der Wirtschaftsprüfer* (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements and this management report.

We exercise professional judgement and maintain professional scepticism throughout the audit. We also:

– Identify and assess the risks of material misstatement of the annual financial statements and of the management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
– Obtain an understanding of internal control relevant to the audit of the annual financial statements and of arrangements and measures (systems) relevant to the audit of the management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems of the Institution.
– Evaluate the appropriateness of accounting policies used by the Management Board and the reasonableness of estimates made by the Management Board and related disclosures.
– Conclude on the appropriateness of the Management Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Institution's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the annual financial statements and in the management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Institution to cease to be able to continue as a going concern.
– Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Institution in compliance with German legally required accounting principles.
– Perform audit procedures on the prospective information presented by the Management Board in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the Management Board as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the annual financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other legal and regulatory requirements

Further information pursuant to Art. 10 of the EU Audit Regulation
We were elected as auditor by the general shareholders' meeting on 19 December 2018. We were engaged by the Board of Supervisory Directors on 7 May 2019. We have been the auditor of KfW IPEX-Bank GmbH without interruption since financial year 2017.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the Audit Committee pursuant to Art. 11 of the EU Audit Regulation (long-form audit report).

In addition to the financial statement audit, we have provided the following services that are not disclosed in the annual financial statements or in the management report:

– Agreed-upon procedures with regard to the calculation of contributions pursuant to Arts. 10 and 14 of the Articles of the deposit guarantee fund of the VÖB ['*Bundesverband*

Öffentlicher Banken Deutschlands e.V'.: Association of German Public Banks]
- Review of the schedule of deductions to accompany IPEX's application to BaFin ['*Bundesanstalt für Finanzdienstleistungsaufsicht*': German Federal Financial Supervisory Authority] pursuant to Sec. 16j (2) Sentence 2 FinDAG ['*Finanzdienstleistungsaufsichtsgesetz*': German Financial Services Supervision Act]
- Review of the report pursuant to Sec. 53 HGrG ['*Haushaltsgrundsätzegesetz*': German Law on Budgetary Principles] regarding remuneration paid to the members of the Board of Supervisory Directors and the Management Board as well as to managerial staff at IPEX.
- Audit according to Sec. V No 11 (1) of the General Terms and Conditions of the Deutsche Bundesbank.

German Public Auditor responsible for the engagement

The German Public Auditor responsible for the engagement is Matthias Koch.

Eschborn/Frankfurt am Main, 3 March 2020

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Müller-Tronnier
Wirtschaftsprüfer
[German Public Auditor]

Koch
Wirtschaftsprüfer
[German Public Auditor]

Country-by-country reporting as per Section 26a of the German Banking Act

The requirements of Article 89 of EU Directive 2013/36/EU 'Capital Requirements Directive' (CRD IV) have been transposed into German law in Section 26a of the German Banking Act (*Kreditwesengesetz – KWG*). This, in conjunction with Section 64r (15) of the Act, requires country-by-country reporting.

Such reporting involves disclosure of the following necessary information:

1. Company name, nature of activities and geographical location of branches
2. Turnover
3. Number of employees on a full-time equivalent basis
4. Number of employees on a full-time equivalent basis
5. Tax on profit or loss
6. Public subsidies received

Turnover has been defined as the operating result before risk provisions and administrative expenses.
The disclosures were made on the basis of the individual financial statements of KfW IPEX-Bank GmbH prepared in accordance with the German Commercial Code (*Handelsgesetzbuch – HGB*) as of 31 December 2019.[12)].

Country	Company name	Nature of activities	Geographical location of branches	Turnover[2)]	Number of employees	Profit before tax[2)]	Tax on profit[2)]	Public subsidies received
				EUR in millions	in FTE[1)]	EUR in millions	EUR in millions	EUR in millions
EU countries								
Germany	KfW IPEX-Bank GmbH	Export and project finance	Frankfurt am Main	503.15	629	183.71	0.11	0.00
UK	KfW IPEX-Bank GmbH	Export and project finance	London	8.56	21	1.81	0.11	0.00

1) The number of employees on a full-time equivalent basis is shown in rounded figures.
2) Calculated on a gross basis

Return on assets
Article 90 of EU Directive 2013/36/EU 'Capital Requirements Directive' (CRD IV) has also been transposed into German law under Section 26a of the German Banking Act.

As of 31 December 2019, the return on assets within the meaning of Section 26a (1) sentence 4 of the Act is 0.0064 or 0.64%[13)].

12) Consolidated financial statements are not prepared. KfW IPEX-Bank GmbH is included in the consolidated financial statements of KfW Group, Frankfurt am Main.
13) The net profit is the annual profit that the bank intends to transfer under the profit transfer agreement with KfW Beteiligungsholding GmbH.

Corporate Governance Report

As a member of KfW Group, KfW IPEX-Bank GmbH (KfW IPEX-Bank) has committed itself to acting responsibly and transparently in an accountable manner. Both the Management Board and the Board of Supervisory Directors of KfW IPEX-Bank recognise the principles of the German Federal Government's Public Corporate Governance Code (PCGC) as applicable to KfW IPEX-Bank. A Declaration of Compliance with the recommendations of the PCGC was issued for the first time on 23 March 2011. Since then, any instances of non-compliance have been disclosed annually and explained.

KfW IPEX-Bank has operated since 1 January 2008 as a legally independent, wholly-owned subsidiary of KfW Group. Its rules and regulations (Articles of Association, Rules of Procedure for the Board of Supervisory Directors and its Committees, and Rules of Procedure for the Members of the Management Board) contain the principles of management and control by the bank's bodies.

Declaration of compliance

The Management Board and the Board of Supervisory Directors of KfW IPEX-Bank hereby declare: 'Since the last Declaration of Compliance submitted in March 2019, the recommendations of the Public Corporate Governance Code, as adopted by the Federal Government on 1 July 2009, have been and will continue to be fulfilled, with the exception of the following deviations.'

D&O insurance deductible

KfW has taken out D&O insurance in the form of a group insurance policy which also provides insurance cover for members of the Management Board and the Board of Supervisory Directors of KfW IPEX-Bank. During the reporting period, in deviation from Clause 3.3.2 of the PCGC, these D&O insurance policies only provided for a deductible for members of the Management Board. This deductible complies with the provisions of Clause 3.3.2 of the PCGC.

Delegation to committees

The committees of the Board of Supervisory Directors of KfW IPEX-Bank essentially perform only preparatory work for the Board of Supervisory Directors. The Loan Committee takes final loan decisions for financing transactions that exceed a certain predefined limit; this is contrary to Clause 5.1.8 of the PCGC. The limits above which the Loan Committee is required to approve measures and transactions of particular importance within the meaning of Section 10 (5) of the Articles of Association have been raised as of 1 January 2020. In this way the Board of Supervisory Directors and the Management Board of KfW IPEX-Bank achieve an appropriate distribution of competencies between the Board of Supervisory Directors and the Management Board while at the same time reacting to the expansion of the volume of business and growing volumes of individual commitments of KfW IPEX-Bank.

This procedure is necessary for both practical and efficiency reasons. The delegation of loan decisions to a loan committee is standard practice at banks. It serves to accelerate the decision-making process and to consolidate technical expertise within the committee.

The Chairman of the Executive Committee – and not the Board of Supervisory Directors as per Clause 4.4.4 of the PCGC – decides on sideline activities exercised by the members of the Management Board.

Loans to members of bodies

According to the Rules of Procedure for the Board of Supervisory Directors and its committees, KfW IPEX-Bank should not grant individual loans to members of the Board of Supervisory Directors. Although the employment contracts of the members of the Management Board do not include a prohibition clause in this regard, neither do they grant an explicit legal entitlement. To ensure equal treatment, this prohibition does not apply – in derogation of Clause 3.4 of the PCGC – to utilisation of promotional loans made available under KfW programmes. Due to the standardisation of lending and the principle of on-lending through applicants' own banks, there is no risk of conflicts of interest with regard to programme loans.

Design of the Management Board's remuneration system

In derogation of Clauses 4.3.1 and 5.1.8 of the PCGC, remuneration for members of management is determined by the general shareholders' meeting after consultation with the Board of Supervisory Directors, in accordance with Section 5 (1) sentence 3 of the Articles of Association, rather than set by the supervisory body itself. In derogation of Clause 4.3.2 of the PCGC the general shareholders' meeting subsequently altered the performance targets and parameters set in the target agreement for the Management Board after consulting with the Board of Supervisory Directors. In the course of the calendar year 2019 a cost target was added to the target agreement.

Allocation of responsibilities

The Management Board adopted Rules of Procedure, after consulting with the Board of Supervisory Directors and with the consent of the general shareholders' meeting, which include regulations governing cooperation among the management. According to these rules the Management Board allocates responsibilities itself – without additional consent from the Board of Supervisory Directors, in deviation from Clause 4.2.2 of the PCGC, but with the approval of the general shareholders' meeting – in a schedule of responsibilities. This ensures that the Management Board has the flexibility it needs to make necessary changes so that responsibilities are divided up efficiently.

Cooperation between the Management Board and the Board of Supervisory Directors

The Management Board and the Board of Supervisory Directors work together closely for the benefit of KfW IPEX-Bank. The Management Board, in particular the CEO, is in regular contact with the Chairman of the Board of Supervisory Directors. The Management Board discusses important matters concerning corporate governance and corporate strategy with the Board of Supervisory Directors. The Chairman of the Board of Supervisory Directors informs the Board of Supervisory Directors of any issues of major significance and convenes an extraordinary meeting if necessary.

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

Management Board

The members of the Management Board manage the activities of KfW IPEX-Bank with the appropriate due care and diligence of a prudent businessperson pursuant to the law, the Articles of Association and Rules of Procedure for the Members of the Management Board, as well as the decisions of the general shareholders' meeting and of the Board of Supervisory Directors. The allocation of responsibilities within the Management Board is governed by a schedule of responsibilities. The members of the Management Board were responsible for the following areas during the reporting year:

– Mr Klaus R. Michalak: Finance, IT, Products and Corporate Affairs including Compliance (CEO and CFO)
– Mr Andreas Ufer: Markets II, Syndication and Treasury
– Mr Markus Scheer: Markets I
– Ms Claudia Schneider: Risk

The members of the Management Board are obliged to act in the best interests of KfW IPEX-Bank, may not consider personal interests in their decisions, and are subject to a comprehensive noncompetition clause during their employment with KfW IPEX-Bank. 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

The company has a mandatory Board of Supervisory Directors in accordance with Section 1 (1) nº 3 of the German One-Third Participation Act (*Drittelbeteiligungsgesetz – DrittelbG*). The Board of Supervisory Directors advises and monitors the Management Board in the management of the bank.

In accordance with KfW IPEX-Bank's Articles of Association, the Board of Supervisory Directors has nine members: two representatives from KfW, two representatives from the Federal Government – one each from the Federal Ministry of Finance and the Federal Ministry for Economic Affairs and Energy – and two representatives from industry as well as three employee representatives. In accordance with the Rules of Procedure for the Board of Supervisory Directors and its committees, the Board is to be chaired by a representative of KfW. As the current Chairman is Prof. Dr Joachim Nagel, this requirement is met. During the reporting year and as of 31 December 2019, the Board of Supervisory Directors included one female representative.

In accordance with the Rules of Procedure for the Board of Supervisory Directors and its Committees, adapted to the requirements of Section 25d (3) of the German Banking Act (*Kreditwesengesetz – KWG*), the members of the Board of Supervisory Directors may not include anyone who is on the management board of a company and also a member of more than two companies' administrative or supervisory bodies, or who is a member of more than four companies' administrative or supervisory bodies. However, pursuant to Section 64r (14) of the Banking Act, this rule does not apply to mandates for administrative and supervisory bodies already held by members of the Board of Supervisory Directors as of 31 December 2013. This 'grandfather clause' applies to two members of the Board of Supervisory Directors. In addition, the German Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht – BaFin*) may authorise a member of an administrative or supervisory body to assume an additional mandate. One member of the Board of Supervisory Directors has received such authorisation for an additional mandate. Members of the Board of Supervisory Directors should also not serve in an administrative, supervisory or consulting role for any significant competitors 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. In two cases where loans were submitted to the Loan Committee for approval, members abstained from the vote in order to avoid a conflict of interest. No member of the Board of Supervisory Directors participated in fewer than half of the board meetings during the reporting year.

Committees of the Board of Supervisory Directors

The Board of Supervisory Directors has established the following committees to fulfil its advisory and monitoring responsibilities in a more efficient manner.

The **Executive Committee** is responsible for personnel-related matters and the bank's management policies, as well as – insofar as necessary – preparation for the meetings of the Board of Supervisory Directors.

The **Remuneration Control** Committee is responsible for overseeing remuneration and ensuring that systems of remuneration for members of the Management Board and employees are appropriate.

The **Risk Committee** is responsible for risk-related issues. In particular, it advises the Board of Supervisory Directors on matters relating to risk tolerance and risk strategy.

The **Loan Committee** is responsible for loan-related issues. It takes final decisions on all loan-related matters for which the Management Board requires the approval of the Board of Supervisory Directors pursuant to the Articles of Association and/or Rules of Procedure for the Members of the Management Board.

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

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 – with the exception of the competencies of the Remuneration Control Committee.

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

Shareholder

As shareholder, KfW Beteiligungsholding GmbH owns 100% of the share capital of KfW IPEX-Bank. 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 Association. It is responsible in particular for the approval of the annual financial statements, for the determination of the amount available for payment of performance-based, variable remuneration within the company, for the appointment and removal of members of the Board of Supervisory Directors who are not employee representatives and of members of the Management Board, for the formal approval of their work at the end of each financial year, and for the appointment of the auditor.

Supervision

Since its spin-off, KfW IPEX-Bank has been fully subject to the provisions of the German Banking Act. With effect from 1 January 2008, BaFin granted the bank a licence to act as an IRBA (Internal Ratings-Based Approach) bank for rating corporates, banks, sovereigns and specialist financing transactions (elementary/slotting approach). The bank uses the standard approach to calculate the regulatory capital requirements associated with operational risks. Due to the special status of KfW (in accordance with Section 2 (1) nº 2 of the German Banking Act, KfW is not considered a credit institution), there is a financial holding group within the meaning of Section 10a of the German Banking Act in conjunction with Article 11 ff. of the CRR, for which KfW IPEX-Bank is the superordinated undertaking. KfW IPEX-Bank has incorporated KfW Beteiligungsholding GmbH into the consolidated group for regulatory reporting purposes as a subordinated undertaking within the meaning of Section 10a (1) sentence 3 of the German Banking Act.

Protection of deposits

With effect from 1 January 2008, BaFin assigned KfW IPEX-Bank to the statutory deposit guarantee scheme of the Association of German Public Banks (*Entschädigungseinrichtung des Bundesverbandes Öffentlicher Banken Deutschlands GmbH*). The bank is also a voluntary member of the deposit guarantee fund of the Association of German Public Banks (*Bundesverband Öffentlicher Banken Deutschlands e.V.*).

Transparency

KfW IPEX-Bank provides all important information about itself and its annual financial statements on its website. The Communication department also regularly provides information regarding the latest developments at the bank. Annual Corporate Governance Reports including the Declaration of Compliance with the PCGC are always available on the website of KfW IPEX-Bank.

Risk management

Risk management and risk controlling are key responsibilities within the integrated risk/return management at KfW IPEX-Bank. 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. This ensures that KfW IPEX-Bank can fulfil its particular responsibilities with an appropriate risk profile in a sustainable, long-term manner. The bank's overall risk situation is analysed and documented comprehensively in monthly risk reports to the Management Board as well as by internal committees that meet on a regular basis, and decisions are taken on risk-related measures. The Board of Supervisory Directors is updated regularly on the bank's risk situation; it is provided with written reports on a monthly basis and with detailed information during meetings that take place on a quarterly basis.

Compliance

The success of KfW IPEX-Bank depends to a large extent on the trust of its shareholder, clients, business partners, employees and the general public in terms of its performance and, especially, its integrity. This trust is based not least on implementing and complying with the relevant legal and regulatory provisions and internal procedures, and all other applicable laws and regulations. The compliance organisation at KfW IPEX-Bank includes, in particular, measures for ensuring adherence to data protection requirements, securities compliance, regulatory compliance, compliance with financial sanctions, as well as measures for preventing money laundering, terrorist financing and other criminal activities, and for achieving an appropriate level of information security. There are corresponding binding rules and procedures that ensure the day-to-day implementation of such values and determine the associated corporate culture and risk culture; these are continually updated to reflect the current legal and regulatory framework as well as market requirements. Training sessions on all compliance-related issues are held on a regular basis for KfW IPEX-Bank employees.

Accounting and annual audit

On 19 December 2018, the general shareholders' meeting of KfW IPEX-Bank appointed Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft as auditor of the financial statements for the 2019 financial year. The Board of Supervisory Directors had already issued the audit engagement to Ernst & Young on 23 November 2018, subject to it being appointed by the general shareholders' meeting. The bank and the auditor agreed that the Chairman of the Audit Committee would be informed without delay of any findings and incidents arising during the audit that could be of importance to the work of the Board of Supervisory Directors. It was furthermore agreed that the auditor would inform the Audit Committee Chairman if it identified any facts during the audit that would render the Declaration of Compliance with the PCGC incorrect, and/or record this in the audit report. A declaration of auditor independence was obtained.

Efficiency review of the Board of Supervisory Directors

The Board of Supervisory Directors has always regularly reviewed the efficiency of its activities. Since Section 25d (11) of the German Banking Act entered into force on 1 January 2014, the Board of Supervisory Directors has been obliged to evaluate itself and the Management Board on an annual basis. It performed its latest evaluation in the fourth quarter of 2019 on the basis of structured questionnaires. The overall outcome of the assessment was a score of 1.4. The Board of Supervisory Directors' self-evaluation does not indicate an urgent or acute need for any measures to be taken. The evaluation of the Management Board began at the end of 2019 and will be completed in the first quarter of 2020.

Remuneration for the Management Board

The remuneration system for the Management Board of KfW IPEX-Bank is intended to remunerate the members of the Management Board appropriately according to their roles and areas of responsibility and to take account of both individual performance and the performance of the bank. Management Board contracts are drawn up based on the 1992 version of the principles for the appointment of board members at German federal credit institutions (*Grundsätze für die Anstellung der Vorstandsmitglieder bei den Kreditinstituten des Bundes*) adopted by the Federal Cabinet. The contracts take PCGC requirements and further relevant legal provisions into account.

Components of remuneration

The remuneration of the Management Board consists of a fixed, annual base salary and a variable, performance-based bonus. All contracts are in accordance with Section 25a (5) of the German Banking Act in conjunction with the German Remuneration Ordinance for Institutions (*Institutsvergütungsverordnung – IVV*). The establishment of the variable, performance-based bonus component is based on an agreement regarding targets that is concluded with the Management Board by the general shareholders' meeting – after consultation with the Board of Supervisory Directors – at the beginning of each year. This agreement includes financial, quantitative and qualitative targets for both the Group and the company, targets specific to the areas of responsibility for each member of the Management Board, and also personal targets. In the subsequent years, in line with currently applicable legal requirements, the performance-based bonus, which is calculated according to the achievement of targets, is either paid out immediately – on a pro rata basis – or deferred. Deferred remuneration components are tracked by means of a 'bonus account'. These components are paid out on a pro rata basis over a holding period that is set in accordance with currently applicable legal requirements, provided that the legal requirements in this regard have been met. Beyond this holding period, it is possible for claims for deferred remuneration components to be reduced, up to and including their complete elimination, depending upon the bank's financial performance or as a result of any misconduct.

Summary of total remuneration paid to members of the Management Board and of the Board of Supervisory Directors

	2019 EUR in thousands	2018 EUR in thousands	Change EUR in thousands
Members of the Management Board	2,005	1,939	67
Members of the Board of Supervisory Directors	176	207	–31
Total	**2,181**	**2,146**	**36**

Remuneration report

The remuneration report describes the basic structure of the remuneration system for members of the Management Board and of the Board of Supervisory Directors; it also discloses the remuneration of the individual members. The level of remuneration for the Management Board and the Board of Supervisory Directors is disclosed in the notes to the financial statements.

For the 2015 financial year and subsequent financial years, the rules for payment of performance-based bonuses have been amended in accordance with the relevant provisions of the Remuneration Ordinance for Institutions. According to these rules, 60% of the performance-based bonus is deferred and paid out over the payment period required by the Ordinance. Each 'annual tranche' of the payment (and the 40% tranche paid immediately) is divided into two components: 50% of the annual tranche is allocated to the 'cash component' and the remaining 50% to the 'sustainability component'. Unlike the cash component, the sustainability component is subject to an additional one-year 'holding period' before being paid out.

The 'value' of the sustainability component of this variable remuneration may also increase or decrease over the course of the payment period. Depending on the bank's performance, both the cash and sustainability components may be cancelled in their entirety.

The overview below shows the total remuneration paid to the individual members of the Management Board, divided into fixed and variable remuneration components and other remuneration, as well as additions to pension provisions. The members' bonus accounts containing the deferred performance-based bonus components are also shown.

Annual remuneration paid to active members of the Management Board and additions to pension provisions during 2019 and 2018 in EUR thousands[1)]

	Salary		Variable remuneration[2)]		Other remuneration[3)]		Total		Bonus account[4)]		Additions to pension provisions	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
	EUR in thousands		EUR in thousands		EUR in thousands		EUR in thousands		EUR in thousands		EUR in thousands	
Klaus R. Michalak (CEO)	410	406	99	92	15	15	524	513	307	307	327	288
Markus Scheer	410	406	76	76	26	25	512	506	236	236	718	641
Claudia Schneider	410	406	34	13	10	7	454	426	186	143	412	334
Andreas Ufer	410	406	71	55	36	33	516	494	233	227	587	481
Total	**1,638**	**1,623**	**280**	**236**	**87**	**80**	**2,005**	**1,939**	**962**	**914**	**2,044**	**1,744**

1) Rounding differences may occur in the table for computational reasons.
2) Variable remuneration relates to the payment of performance-based bonuses for work performed as a member of the Management Board and also to deferred bonus components from previous years.
3) This remuneration is presented in analogy with the figures given in the Notes in accordance with Section 285 (9) of the German Commercial Code excluding employer benefits according to the German Social Insurance Act (*Sozialversicherungsgesetz*). These totalled EUR 53 thousand in 2019 (previous year: EUR 52 thousand).
4) As well as individual performance-based bonuses carried forward from previous years, the bonus account also includes the provision for bonuses for financial year 2019. In this financial year bonus components due for payment and carried forward were paid out partly with a reduction due to insufficient sustainable performance of KfW IPEX-Bank. There were no deductions for penalties.

Responsibilities

The general shareholders' meeting consults on the remuneration system for the Management Board, including its contractual elements, and reviews it regularly. It approves the remuneration system after consulting with the Board of Supervisory Directors. The most recent review of the system's appropriateness took place on 22 March 2019.

Contractual fringe benefits

Other remuneration primarily includes contractual fringe benefits. The members of the Management Board of KfW IPEX-Bank are entitled to a company car for both business and private use. Costs incurred as a result of private use of a company car are borne by the members of the Management Board in accordance with currently valid tax legislation.

The members of the Management Board are insured under a group accident insurance policy. They are covered by two insurance policies for the risks associated with their activities on the bank's management bodies. The first provides liability insurance for monetary damages (D&O insurance) and the second offers supplemental legal protection for monetary damages. Both policies are group insurance policies. There is a deductible of 10% in relation to D&O insurance policies for the members of the

Management Board. Members of the Management Board of KfW IPEX-Bank acting in their management capacity are also protected by a special group legal expenses insurance policy for employees that covers criminal defence, which was taken out by KfW.

Other remuneration does not include remuneration received for the exercise of corporate mandates held and sideline activities performed by a member of the Management Board outside the Group with the approval of the competent bodies of KfW IPEX-Bank. The entire amount of such remuneration is considered personal income of members of the Management Board. In 2019, the members of the Management Board did not receive remuneration for exercising group mandates.

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

In addition, contractual fringe benefits include the costs of security measures for residential property occupied by members of the Management Board; these costs are not reported under Other remuneration but instead under Non-personnel expense. As in the previous year, the bank did not incur any costs for security measures in the 2019 financial year.

Contractual fringe benefits also comprise employer benefits as per the German Code of Social Law (*Sozialgesetzbuch – SGB*); in analogy to the figures in the Notes (Section 285 Clause 9 of the German Commercial Code [*Handelsgesetzbuch – HGB*]), these are not reported under Other remuneration. Contractual fringe benefits that cannot be granted tax-free are subject to taxation as non-cash benefits for members of the Management Board.

There were no outstanding loans to members of the Management Board in 2019.

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

According to Section 5 (1) sentence 6 of the Articles of Association of KfW IPEX-Bank, the appointment of a member of the Management Board is not to extend beyond statutory retirement age. Managing Directors who turn 65 years of age and/or reach statutory retirement age and whose contract for serving on the Management Board has expired are entitled to retirement pension payments. One board member who was first appointed as a member of the Management Board prior to 2014 may, at his/her request, retire early when he/she reaches 63 years of age. Members of the Management Board are also entitled to retirement pension payments if their employment ends due to ongoing disability.

Pension commitments for Management Board members as well as for their surviving dependents are based on the 1992 version of the principles for the appointment of board members at German federal credit institutions adopted by the Federal Cabinet. The PCGC is taken into account when contracts of employment are drawn up for members of the Management Board.

A severance payment cap has been included in the employment contracts of members of the Management Board in accordance with PCGC recommendations. This cap limits payments to a member of the Management Board following premature termination of employment without good cause as per Section 626 of the German Civil Code (*Bürgerliches Gesetzbuch – BGB*) to two years' annual salary or the remuneration including fringe benefits for the remainder of the contract, whichever is lower.

In principle, the maximum retirement pension entitlement for members of the Management Board equals 49% of the most recent gross salaries paid. In one case the entitlement amounts to 55%. The retirement pension entitlement increases over an individually agreed period by a fixed percentage with every year of service completed until the maximum pension entitlement is attained.

If the employment contract of a member of the Management Board is terminated or not extended for good cause pursuant to Section 626 of the Civil Code, the retirement pension entitlements will expire according to the legal principles established for employment contracts.

Retirement pension payments to former members of the Management Board totalling EUR 557 thousand (previous year: EUR 398 thousand) were made in the 2019 financial year.

In addition, deferred performance-based bonuses totalling EUR 35 thousand (previous year: EUR 88 thousand) were paid to former members of the Management Board. As of 31 December 2019, further deferred bonus components of EUR 36 thousand remained in the bonus account (previous year: EUR 73 thousand).

Provisions for pension obligations for former members of the Management Board and their surviving dependents totalled EUR 13,845 thousand at the end of the 2019 financial year (previous year: EUR 12,785 thousand).

The overview below shows payments made to former members of the Management Board and/or to their surviving dependents:

Remuneration paid to former members of the Management Board and/or their surviving dependents

	Number		Retirement benefits		Number		Payment of deferred performance-based bonuses[1]		Number		Provisions for pension obligations	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
		EUR in thousands		**EUR in thousands**		**EUR in thousands**		**EUR in thousands**		**EUR in thousands**		**EUR in thousands**
Former members of the Management Board	3	3	557	398	1	2	35	88	3	3	13,845	12,785
Surviving dependents	0	0	0	0	0	0	0	0	0	0	0	0
Total	**3**	**3**	**557**	**398**	**1**	**2**	**35**	**88**	**3**	**3**	**13,845**	**12,785**

[1] As of 31 December 2019, further deferred bonus components in the amount of EUR 36 thousand (previous year: EUR 73 thousand) remained in the bonus account.

Remuneration for the Board of Supervisory Directors

The members of the Board of Supervisory Directors receive annual remuneration at a level determined by the general shareholders' meeting. According to its provisions, and unchanged from the previous year, the net annual remuneration for a member of the Board of Supervisory Directors is EUR 22,000, and the net annual remuneration for the Chairman is EUR 28,600.

Members who join during the year receive their remuneration on a pro rata basis.

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 that they attend. Members of the Board of Supervisory Directors can also claim, to a reasonable extent, reimbursement of travel and other miscellaneous expenses that they have incurred in the performance of their duties.

The representatives from KfW on the Board of Supervisory Directors of KfW IPEX-Bank have waived this remuneration and the meeting attendance fees since 1 July 2011 in accordance with a fundamental and permanent decision by the Executive Board of KfW to waive such remuneration for mandates exercised within the Group.

Details regarding the remuneration of the Board of Supervisory Directors during the 2019 and 2018 financial years are listed in the following tables; travel expenses and other miscellaneous expenses were reimbursed based upon receipts and are not included in this table.

Remuneration paid to members of the Board of Supervisory Directors for 2019 in EUR

Member	Dates of service	Annual remuneration (net)	Attendance fees (net)[1]	Total (net)
Dr Nagel[2]	1 Jan. – 31 Dec.	–	–	–
Dr Peiß[2]	1 Jan. – 31 Dec.	–	–	–
Dr Rupp	1 Jan. – 31 Dec.	22,000.00	17,000.00	39,000.00
Ms Kollmann	1 Jan. – 31 Dec.	22,000.00	10,000.00	32,000.00
Mr Gasten	1 Jan. – 31 Dec.	22,000.00	13,000.00	35,000.00
Mr Knittel	1 Jan. – 31 Dec.	22,000.00	17,000.00	39,000.00
Mr Koch	1 Jan. – 31 Dec.	22,000.00	9,000.00	31,000.00
State Secretary Dr Nussbaum[2]	1 Jan. – 31 Dec.	–	–	–
State Secretary Dr Kukies[2]	1 Jan. – 31 Dec.	–	–	–
Total		**110,000.00**	**66,000.00**	**176,000.00**

[1] Lump sum of EUR 1,000 net per meeting attended
[2] Remuneration not claimed

Remuneration paid to members of the Board of Supervisory Directors for 2018 in EUR

Member	Dates of service	Annual remuneration (net)	Attendance fees (net)[1]	Total (net)
Dr Nagel[2]	1 Jan. – 31 Dec.	–	–	–
Dr Peiß[2]	1 Jan. – 31 Dec.	–	–	–
Dr Rupp	1 Jan. – 31 Dec.	22,000.00	17,000.00	39,000.00
Dr Schuknecht[3]	1 Jan. – 15 Aug.	14,667.00	11,000.00	25,667.00
State Secretary Machnig[2]	1 Jan. – 13 Apr.	–	–	–
Ms Kollmann	1 Jan. – 31 Dec.	22,000.00	13,000.00	35,000.00
Mr Gasten	1 Jan. – 31 Dec.	22,000.00	12,000.00	34,000.00
Mr Knittel	1 Jan. – 31 Dec.	22,000.00	19,000.00	41,000.00
Mr Koch	1 Jan. – 31 Dec.	22,000.00	10,000.00	32,000.00
State Secretary Dr Nussbaum[2]	29 May – 31 Dec.	–	–	–
State Secretary Dr Kukies[2]	16 Aug. – 31 Dec.	–	–	–
Total		**124,667.00**	**82,000.00**	**206,667.00**

[1] Lump sum of EUR 1,000 net per meeting attended
[2] Remuneration not claimed
[3] These amounts are subject to the German Sideline Activity Earnings Regulation (*Bundesnebenverdienstordnung*).

The indicated amounts are net values and were all paid for the reporting year.

There are no pension obligations in respect of members of the Board of Supervisory Directors.

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

No direct loans were extended to members of the Board of Supervisory Directors during the reporting year. The members of the Board of Supervisory Directors are covered by two insurance policies for the risks associated with their board activities. The first provides liability insurance for monetary damages (D&O insurance) and the second offers supplemental legal protection for monetary damages. Both policies are group insurance policies of KfW. A deductible has not been agreed at present. Members of the Board of Supervisory Directors of KfW IPEX-Bank acting in their capacity as such are also protected by a special group legal expenses insurance policy for employees that covers criminal defence, which was taken out by KfW.

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Management Board **Board of Supervisory Directors**

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