Annual Report 2017

KFW IPEX-Bank

Thinking ahead. Because successfully supporting exports safeguards the future.

We have operated in the market as an independent, wholly-owned subsidiary of KfW for 10 years. We evolved from one of the Group's oldest business sectors: Export and Project Finance – and we think ahead. With six decades of experience and market knowledge, we are now a leading specialist financier in Germany and Europe and are well-equipped for the challenges of the future. Our financing – mostly provided together with other banks and institutions – supports projects that ensure the future viability of our globalised society, safeguard growth and employment, and preserve the livelihoods of future generations. **Financing the future.**

10 YEARS

2017

Key figures

Volume of lending of the Export and Project Finance business sector

Volume of lending of the business sector[1] by sector department	2017
	EUR in billions
Maritime Industries	13.9
Power, Renewables and Water	13.2
Aviation and Rail	9.2
Basic Industries	8.9
Transport and Social Infrastructure (PPP)	7.0
Industries and Services	7.0
Financial Institutions, Trade and Commodity Finance	2.7
Total	**61.9**

1) For which KfW IPEX-Bank GmbH is responsible

KfW IPEX-Bank GmbH key figures

	2017	2016
	EUR in billions	EUR in billions
Balance sheet key figures		
Total assets	25.4	29.4
Volume of lending	30.7	34.9
Contingent liabilities	1.6	1.6
Irrevocable loan commitments	6.3	6.6
Assets held in trust	0.2	0.2
Volume of business (total assets, contingent liabilities and irrevocable loan commitments)	33.3	37.7
Equity	3.9	3.5
Equity ratio (%)	15.2	11.8
Results	**EUR in millions**	**EUR in millions**
Operating income before risk provisions/valuations	147	284
Risk provisions and valuations	–78	–164
Profit transferred due to a profit pooling, profit transfer or partial profit transfer agreement	113	105
Result of the Export and Project Finance business sector (segment report, consolidated financial statements of KfW Group)	469	484
Number of employees (including Management Board)	**680**	**666**

Contents

Dear Readers,

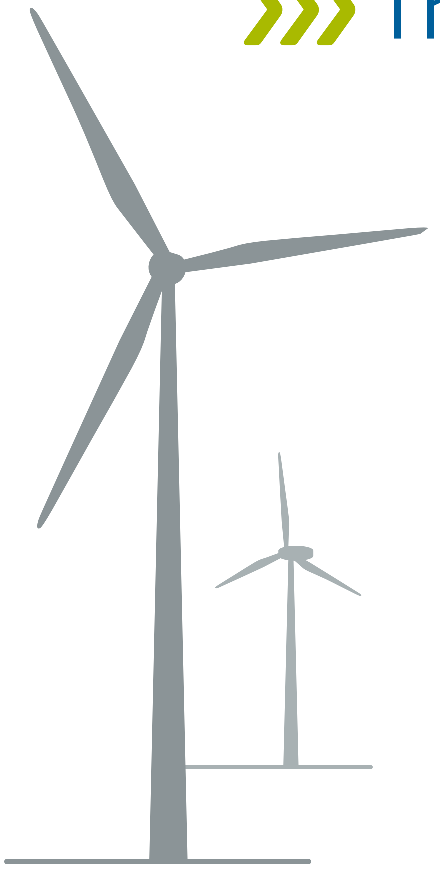
KfW IPEX-Bank has been operating successfully in the market for ten years. It gives us great pride to say that, since its spin-off from KfW as a legally independent limited company, KfW IPEX-Bank has become firmly established as a leading specialist financier in Germany and Europe. Our roots and experience in this business go back a long way because, within KfW Group, we are responsible for the Export and Project Finance business sector, which has been operating since the 1950s.

Our role then was the same as it is today – assisting internationally active companies with their ventures in global markets through tailored financing. Supporting German companies and, increasingly during the last decade, European companies, is at the core of our bank's activities. By providing financing for key industrial sectors, economic and social infrastructure projects, as well as projects aimed at protecting the climate and environment and at securing the supply of raw materials, KfW IPEX-Bank also makes an important contribution to growth, prosperity and employment.

Over the past ten years we have supported more than 3,000 projects and granted new loans totalling EUR 143 billion. This result has made a substantial contribution to strengthening the equity and hence the long-term promotional capacity of our shareholder, KfW. Our growth and success are first and foremost thanks to our employees in Germany and abroad, who work with energy, dedication and skill to meet our customers' needs and help them carry out their projects around the world. We would like to take this opportunity to express our special thanks to them for this exceptional commitment.

During the past financial year, global demand for capital goods and their financing proved to be robust, albeit with significant regional weaknesses due to sustained political uncertainties and export sanctions against individual countries. At the same time, the supply of export and project financing remained fiercely competitive, since banks and, increasingly, institutional investors recorded high levels of liquidity and were therefore also under strong pressure to invest in the current low interest rate environment. Despite these challenging conditions, the bank performed well due to our high level of structuring expertise and industry experience.

Thinking ahead



Our focus was on the quality of our exposures and hence on a balanced risk/return ratio, as well as on supporting our longstanding customers. We disbursed new loans totalling EUR 13.8 billion and generated a contribution to KfW's consolidated earnings of EUR 469 million. This once again underlines our status as one of KfW's main sources of earnings and demonstrates our active contribution to securing the Group's long-term promotional capacity.

All sector departments played a role in this successful business performance. The highest new commitment volume came from the Power, Renewables and Water sector department at EUR 2.6 billion, a substantial part of which was attributable to onshore and offshore wind farms. This is evidence of KfW IPEX-Bank's commitment to making a significant contribution to the protection of the environment and climate. The Maritime Industries sector department generated commitments of EUR 1.6 billion, of which, for example, a good third alone related to the financing of two low-emission LPG-fuelled cruise liners. KfW IPEX-Bank is therefore actively supporting efforts to make the booming cruise industry as low as possible in emissions harmful to people and the environment.

In 2017, the bank provided financing totalling EUR 2.0 billion for projects with a significant and measurable positive impact on the climate and environment. This corresponds to 15% of the bank's total commitment volume. We therefore play an important role in achieving KfW Group's ambitious environmental and climate protection targets, which aim to improve ecological living conditions – both in Germany and throughout the world.

As a relationship bank, we maintain close personal contact with our customers. In order to offer them the best possible advice and support, we maintain a presence in key economic and financial centres around the globe, with a total of nine representative offices and a branch in London.

In 2018, KfW IPEX-Bank aims to reinforce its position as a reliable specialist financier and stable partner to key industries that are vital to the German and European economies. In the majority of cases we do not work alone, instead providing the debt capital required in collaboration with other financing partners such as banks, institutional investors and supranational promotional institutions. Besides providing loans, our main contribution is our structuring expertise coupled with ECA experience built up over many years, and we often take lead roles. Our aim is to continue building on this close and trusting working relationship with our market partners and to play an active part in structuring tailor-made syndicate financing.

Based on growing competition and a portfolio management strategy geared towards quality, KfW IPEX-Bank's target for new commitments in the 2018 financial year is EUR 16.3 billion.

We will continue to build on the trusting working relationship with our financing partners and play an active role in structuring tailor-made syndicate financing. »»

»» Building bridges

The reporting year saw changes in both KfW IPEX-Bank's Management Board and the chair of its Board of Supervisory Directors. In March, our Management Board member Andreas Ufer, who was previously responsible for Risk Management, took over responsibility for Markets II (transport sectors) and Treasury, succeeding Christian K. Murach, a long-standing board member. Claudia Schneider was appointed as the new Management Board member responsible for Risk Management, and also succeeded Andreas Ufer as Chief Risk Officer (CRO).

At the start of October, Prof. Dr Joachim Nagel was appointed to the Board of Supervisory Directors of KfW IPEX-Bank GmbH, and on 25 October 2017 he was elected as the Board's Chairman. He replaced the long-standing incumbent and member of KfW's Executive Board Dr Norbert Kloppenburg, who has been with KfW IPEX-Bank as Chairman of the Board of Supervisory Directors since its spin-off and has now retired after 28 years with KfW. We would like to thank Dr Kloppenburg for his outstanding dedication and work with us, and look forward to our future collaboration with Prof. Dr Nagel.

The market environment will remain challenging for us in 2018, and increasing regulatory requirements are forthcoming. KfW IPEX-Bank has taken a number of important steps internally to ensure that it can continue to perform well in the future. As a result, we look forward to the challenges that 2018, our anniversary year, will bring!

For the future

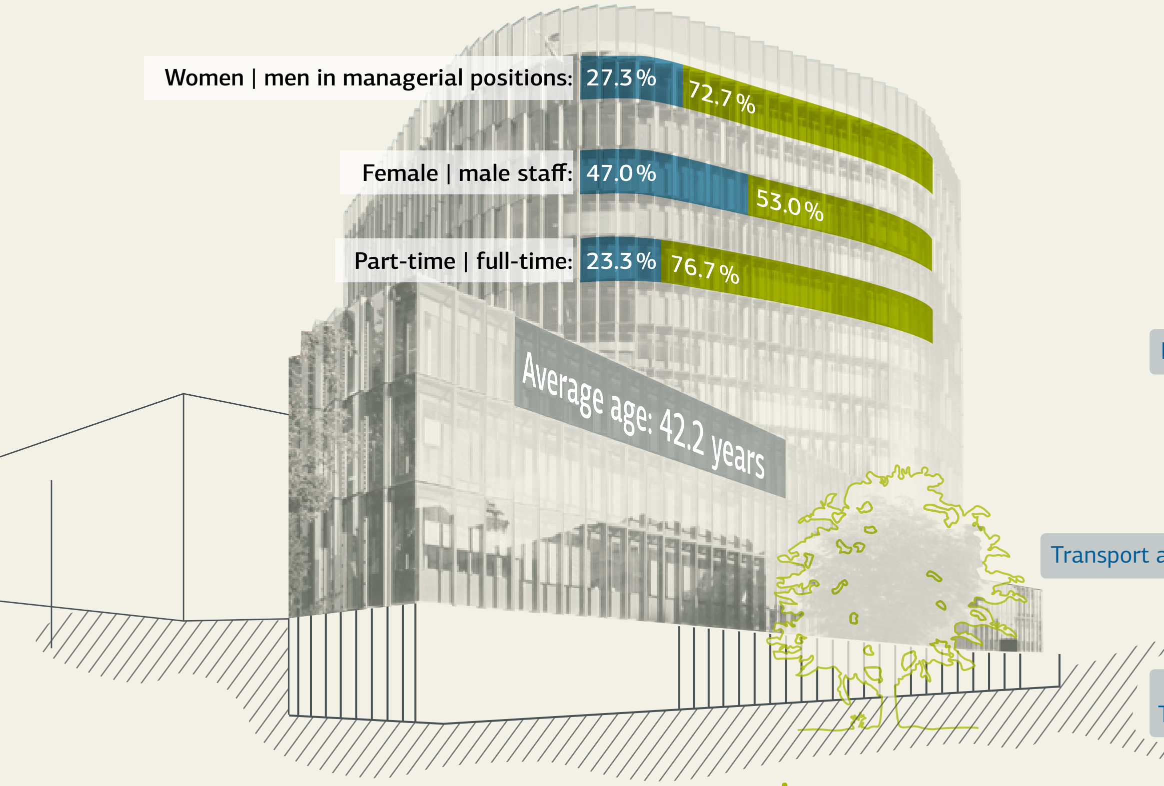
Andreas Ufer

Markus Scheer

Klaus R. Michalak, CEO

Claudia Schneider

KfW IPEX-Bank at a glance



SECTORS

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680
EMPLOYEES

VOLUME OF LENDING IN 2017
EUR 61.9 BILLION

REPRESENTED
WORLDWIDE

Continuity in times of change

Report of the Board of Supervisory Directors 2017

The Board of Supervisory Directors and the Management Board continued to cooperate closely in the past financial year. The Board of Supervisory Directors was informed by the Management Board of all significant developments at KfW IPEX-Bank in a timely and comprehensive manner, and was satisfied of the due and proper conduct of business by the Management Board. The Board of Supervisory Directors was involved in decisions of major importance for the company at all times and granted its approval in relevant cases, where required, following extensive consultation and review.

Meetings of the Board of Supervisory Directors

In addition to the four ordinary meetings held by the Board of Supervisory Directors in 2017, one constituent meeting and one extraordinary meeting took place. At the ordinary meetings, the Management Board reported on current business development, presented relevant risk and performance reports as well as the interim financial statements, and discussed these in depth with the Board of Supervisory Directors. The constituent and extraordinary meetings were convened for the election of the Chairman of the Board of Supervisory Directors and for the succession of positions on the various committees. This followed the expiry of the existing Board's term of office and the retirement of the former Chairman of the Board of Supervisory Directors.

The focus of the first ordinary meeting in the financial year on 22 March 2017 was on the 2016 financial statements. The Board of Supervisory Directors followed the recommendation of the Audit Committee and approved the audit results and the annual financial statements, including the management report, and recommended that the annual financial statements be approved at the general shareholders' meeting. In addition, the Board of Supervisory Directors passed resolutions on the 2016 Report of the Board of Supervisory Directors and on the 2016 Corporate Governance Report. It also confirmed the assessment results of the efficiency review of the Management Board without recommending further action. Furthermore, the Board of Supervisory Directors recommended to the general shareholders' meeting that the performance-based bonus components for the Management Board be paid out in the amount proposed and noted that there were no issues preventing the full payment of 2015 remuneration components that had been deferred.

The regular term of office of the Board of Supervisory Directors came to an end at the close of the ordinary meeting and following approval of its activities by the subsequent general shareholders' meeting. The KfW and industry representatives on the Board of Supervisory Directors were reappointed for a further term of office by the general shareholders' meeting pursuant to a resolution on 23 February 2017, and the two representatives of the Federal Government were reappointed pursuant to a resolution on 14 March 2017. The three employee representatives were elected by staff members on 16 February 2017.

The constituent meeting of the newly appointed Board of Supervisory Directors also took place on 22 March 2017 following the general shareholders' meeting.

At its second ordinary meeting on 23 June 2017, the Board of Supervisory Directors discussed the framework for 2018 group business sector planning and confirmed that the Management Board uses appropriate principles for selecting and appointing individuals to senior management. In addition, the Management Board provided detailed information to the Board of Supervisory Directors, in particular on the latest developments with regard to KfW IPEX-Bank's commitments in the maritime industries sector and on the current preliminary results of the 'IPEXnext' project. The Board of Supervisory Directors also acknowledged and discussed the annual compliance report.

At the third ordinary meeting on 25 October 2017, the Board of Supervisory Directors dealt primarily with ad hoc matters such as the contents and specific implications for KfW IPEX-Bank of the amendment to the German Remuneration Ordinance for Institutions *(Institutsvergütungsverordnung – IVV)*, the new German Remuneration Transparency Act *(Entgelttransparenzgesetz – EntgTranspG)* and the implementation of the impairment model pursuant to IFRS 9. The Management Board's report also included, as a focal point for discussion, Brexit and its potential impact on KfW IPEX-Bank's business.

Due to his forthcoming retirement, Dr Kloppenburg, Chairman of the Board of Supervisory Directors of KfW IPEX-Bank, stepped down from said Board with effect from the end of this meeting. Members of the Board of Supervisory Directors and the Management Board thanked Dr Kloppenburg for his outstanding commitment and many years of successful service since the formation of the Board of Supervisory Directors of KfW IPEX-Bank. The general shareholders' meeting appointed Prof. Dr Nagel, member of the Executive Board of KfW, as a new member of the Board of Supervisory Directors.

At the ensuing extraordinary meeting, Prof. Dr Nagel was elected as Chairman of the Board of Supervisory Directors and it was confirmed that he would assume identical functions to Dr Kloppenburg on all committees.

At the final ordinary meeting of the financial year on 1 December 2017, the Board of Supervisory Directors devoted its time to final 2018 group business sector planning and to the 2017 assessment results of the efficiency review of the Board of Supervisory Directors, which it confirmed without recommending further action. In addition, the Board of Supervisory Directors approved an amendment to the Rules of Procedure for the Board of Supervisory Directors, which resulted from the amendment to the Remuneration Ordinance for Institutions (IVV), and recommended that the general shareholders' meeting approve an amendment to the system for agreeing targets with the Management Board. The Board of Supervisory Directors also recommended that the general shareholders' meeting approve the targets for 2018, which had previously been discussed in detail and agreed with the Management Board.

Training courses

In 2017 a total of four advanced training seminars were held for the Board of Supervisory Directors and the Management Board, during which participants looked in detail at the Internal Capital Adequacy Assessment Process (ICAAP), the Internal Liquidity Adequacy Assessment Process (ILAAP), business model analysis and digitalisation.

Work in the committees of the Board of Supervisory Directors

The Board of Supervisory Directors is supported in its duties by an Audit Committee, a Loan Committee, an Executive Committee, a Remuneration Control Committee and a Risk Committee. During the past financial year these committees fulfilled their designated tasks and in particular made recommendations to the Board of Supervisory Directors, where appropriate. The work of the committees was reported regularly and in detail in subsequent meetings of the Board of Supervisory Directors.

The Audit Committee held five meetings, during which it discussed the interim financial statements as well as dealing with the internal control system (ICS) in its entirety and the regular reports of the Internal Auditing department, among other matters. The committee discussed the auditor's reports at length and recommended that the Board of Supervisory Directors approve the 2016 annual financial statements. The Audit Committee also regularly addressed current developments in the field of compliance and received detailed reports about regulatory audits performed during the financial year together with the resolution status of any findings.

The Loan Committee met eight times during the reporting year. There were no instances of members of the committee abstaining from voting due to conflicts of interest.

During its three meetings convened in 2017, **the Executive Committee** dealt with alterations to the employment contracts of members of the Management Board owing to the amendment to the Remuneration Ordinance for Institutions. It also addressed the efficiency reviews of the Board of Supervisory Directors and Management Board, the principles used for selecting individuals to serve as senior managers as well as the outcome of the succession management process, and made recommendations in this regard to the Board of Supervisory Directors. In addition, the committee discussed implementation of the German law on equal participation of women and men in management positions.

The Remuneration Control Committee monitored the remuneration systems for members of the Management Board and employees to ensure that they were appropriate and examined the compatibility of these systems with the corporate strategy geared towards the company's sustainable development. Furthermore, the committee examined the KfW IPEX-Bank remuneration strategy and the identification of risk takers. The committee met on four occasions during the reporting year, with one of the meetings held via conference call.

In its four meetings during the reporting year, the **Risk Committee** regularly addressed the general risk situation as well as current developments and selected portfolios. It also held detailed discussions on the risk culture and its implementation, and examined the compatibility of incentives in the remuneration systems with the risk strategy. At the end of the year the Risk Committee carried out an in-depth examination of the 2018 risk strategy as well as of capital planning for the coming years.

Audit of the 2017 annual financial statements

After conducting a final review of the annual financial statements and the management report, the Board of Supervisory Directors approved the audit result, the annual financial statements and the management report at its first ordinary meeting on 23 March 2018 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 2017 that were prepared by the Management Board as of 13 February 2018, and the management report for the 2017 financial year. EY issued an unqualified audit opinion on 27 February 2018.

Changes to the Board of Supervisory Directors and to the Management Board

In March 2017 Mr Murach stepped down from the Management Board upon reaching retirement age. The general shareholders' meeting appointed Ms Schneider to the Management Board as his successor.

On the employee representatives' side, Dr Marschhausen and Mr Weigmann left the Board of Supervisory Directors at the end of the second term of office. At the start of the third term of office, the two newly elected employee representatives, Mr Knittel and Mr Koch, assumed their duties on the Board of Supervisory Directors alongside Mr Gasten, who was re-elected as a member of the Board. On 25 October 2017, Prof. Dr Nagel succeeded the outgoing member Dr Kloppenburg as the representative of KfW on the Board of Supervisory Directors.

The Board of Supervisory Directors would like to thank the Management Board and all employees, as well as those members of the Board of Supervisory Directors who left during 2017 – Dr Marschhausen, Mr Weigmann and Dr Kloppenburg – and Mr Murach, who retired from the Management Board, for their commitment, hard work and achievements during the 2017 financial year.

Frankfurt am Main, 23 March 2018
On behalf of the Board of Supervisory Directors

Joachim Nagel

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

10 years of KfW IPEX-Bank

KfW IPEX-Bank: operating independently in the market for 10 years – with 60 years of experience in export and project finance

KfW IPEX-Bank has operated in the market as an independent, wholly-owned subsidiary of KfW since 1 January 2008, and evolved from one of KfW's oldest business sectors: Export and Project Finance. KfW IPEX-Bank thus draws on six decades of experience and, at the same time, presents itself as a modern bank through continuous market and customer orientation, with a clear service commitment as a specialist financier and relationship bank.

1948: Foundation of KfW – with export finance a key pillar from the start
On 18 November 1948 the German Law Concerning KfW comes into force – providing the basis for the activities of Kreditanstalt für Wiederaufbau (known as 'reconstruction loan corporation' at the time) in post-war Germany. Long-term export finance has been part of KfW's statutory mandate since 1951.

1958: Commercial project finance to support vital industries
In the 1950s Germany's balance of payments improves to such an extent that from 1958 onwards, the Deutsche Bundesbank and the German Federal Government consider a targeted level of German capital exports to be desirable. Commercial project finance transactions are introduced.

1961: Securing raw material supplies for the German steel industry
In 1961 KfW provides the first untied loan (*ungebundener Finanzkredit – UFK*) to secure raw material supplies for German industry. The funds support iron ore projects in Liberia that supply Germany's Ruhr region with raw materials.

1961: Start of shipbuilding assistance programmes and ship financing
KfW's activities are not limited to granting federal funds. The bank considers that its primary function is to support German shipyards in their export activities by extending loans based on market funds on the most favourable terms possible, in this way conserving government subsidies.

Clear focus on export and project finance
Today, KfW IPEX-Bank continues to support key industries in the German, and now also European, export economies, with the aim of developing economic and social infrastructure, protecting the environment and climate and securing raw material supplies.

TODAY

Reliable raw material supplies
German and European companies depend on a reliable supply of raw materials. KfW IPEX-Bank structures complex financing transactions to secure the supply of raw materials – at the same time incorporating tools to promote foreign trade.

Leading financier for maritime industries
KfW IPEX-Bank has established itself as one of the world's largest financiers of the maritime industries. As was already the case in the 1960s, its focus is on supporting German shipyards as well as modern technologies and environmentally friendly propulsion technology.

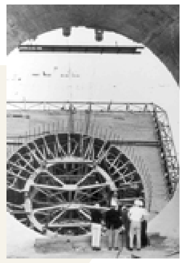
Key issues for the future: Energy and energy efficiency
KfW IPEX-Bank finances innovative energy and environmental projects, thus ensuring a sustainable energy supply. It is among the leading financiers of energy-efficient combined cycle power plants as well as technologically demanding wind and solar power projects.

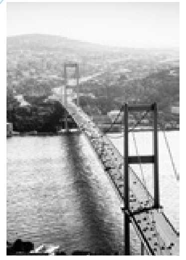
Core business: Aircraft financing
KfW IPEX-Bank is a leading provider of aircraft financing in all major aviation markets around the world. Its customers include over 100 scheduled passenger, cargo and charter airlines as well as aircraft manufacturers and leasing companies.

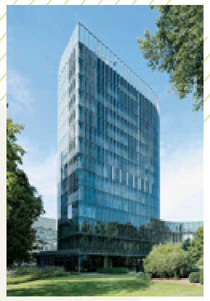
Expansion of the modern-day lifelines of society
KfW IPEX-Bank finances projects all around the world in aviation, maritime and rail transport, transport infrastructure, logistics and digital connectivity. It therefore plays an important role in improving the quality of life and prosperity of globalised society.

Acting responsibly
KfW IPEX-Bank is aware of its social responsibility. It ensures that all projects are implemented in an environmentally and socially responsible manner. Its actions are intended to safeguard the livelihoods and quality of life of future generations.

Financing the future
Since its spin-off, KfW IPEX-Bank has financed more than 3,000 projects and disbursed new loans of EUR 143 billion. Its financing transactions help to ensure the future sustainability of our globalised society and to secure economic strength and employment in Germany and Europe.







1969/1970: Alternative energy
Support for power generation from alternative energy sources has been one of KfW's objectives for around 50 years. In 1969 and 1970, for example, it provides export finance for hydropower plants in Argentina and Mozambique.

1976: Supporting German and European high-tech industry
As part of sales financing for the Franco-German Airbus, KfW grants the first loans to airlines in Korea, India and South Africa in 1976. The first Airbus financing in the USA takes place in 1978, for Eastern Airlines. In 1989, new commitments for aircraft financing exceed DM 1 billion for the first time.

1970s/1980s: Expansion of infrastructure
In 1973 the Bosphorus Bridge is opened in Istanbul, linking Asia to Europe. This major infrastructure project is co-financed by KfW. In 1987 KfW grants a loan equivalent to DM 295 million for construction of the Eurotunnel.

Since the 1980s: Environmental and social standards
In 1984 KfW sets up the first programme of its own aimed at supporting environmental and climate protection in Germany. In 2000 it establishes its own strict guidelines for assessing the environmental and social sustainability of all projects it finances. In 2008, the year of its spin-off, KfW IPEX-Bank joins the Equator banks, which follow internationally recognised principles.

2008: Spin-off and legal independence
At the start of 2002, the Federal Government and the European Commission reach an agreement on restructuring Germany's promotional banks. For KfW this means the separation of promotional activities and commercial business. Its export and project finance activities are spun off as of 1 January 2008 into an independent, wholly-owned subsidiary: KfW IPEX-Bank.

Thinking ahead. Because it makes distances shorter and creates new connections.

Mexican bus operator IAMSA is expanding its fleet by adding 55 comfortable MAN double-decker coaches for long-distance journeys between central Mexico and the Pacific coast.

Supporting the German and European export industry

In Mexico, buses and coaches are the main means of transport for both short and long-distance travel, and hence constitute a key element of regional and national passenger transport. The Mexican company Inversionistas en Autotransportes Mexicanos (IAMSA) is the largest bus and coach operator in the country, carrying approximately 350 million passengers each year on its fleet of 9,600 vehicles. In order to expand further, the bus operator has ordered 55 new MAN double-decker coaches with high-floor chassis manufactured in Germany, and KfW IPEX-Bank is supporting this transaction with a loan equivalent to EUR 21.3 million.

Expansion of transport infrastructure in Mexico

The MAN coaches are to operate on routes between central Mexico and the Pacific coast. As they are to run on long distances of 500 to 1,000 kilometres per route, special emphasis has been placed on high-quality equipment and safety systems. The double deckers seat up to 42 passengers and boast comfort features such as individual entertainment systems and modern air-conditioning systems, as well as electronic braking systems (EBS), automatic adaptive cruise control, lane assist and emergency brake assist systems.

International project and export finance

Germany is one of the world's leading export nations. In the last 20 years, for example, the export ratio – the ratio between exports and gross domestic product (GDP) – has almost doubled to 46 % in 2016. The export economy has thus been a key pillar of the country's economic system for decades.

For Germany, which is low in natural resources and has relatively high labour costs by international standards, the development of globally competitive high-tech products is vital. The share of high-tech exports in total exports has risen over 10 % to a good 15 % in the last decade, a welcome trend. This positive development is underpinned by a balanced combination of global corporations and well-established medium-sized enterprises, with many of these 'hidden champions' being world market leaders in their specific fields.

2008

First full-service provider in rail transport

In July 2008, KfW IPEX-Bank and HSH Nordbank establish Railpool GmbH, the first 'one-stop shop' for rail operators. The purpose of Railpool is to help meet the growing demand for rail vehicles against the backdrop of further privatisation of European rail services. The Munich-based joint venture provides assistance to private rail operators not only as a financier and lessor, but also as an advisor and service provider.

The two banks sell their holdings in the company and relinquish their positions as active shareholders in 2014, as Railpool has now grown to become a leading asset manager in rail transport. However, they continue to support Railpool, furnishing it with necessary debt capital for refinancing and growth. In addition to vehicles for regional passenger rail transport, Railpool's portfolio now includes around 100 environment-friendly electric locomotives.

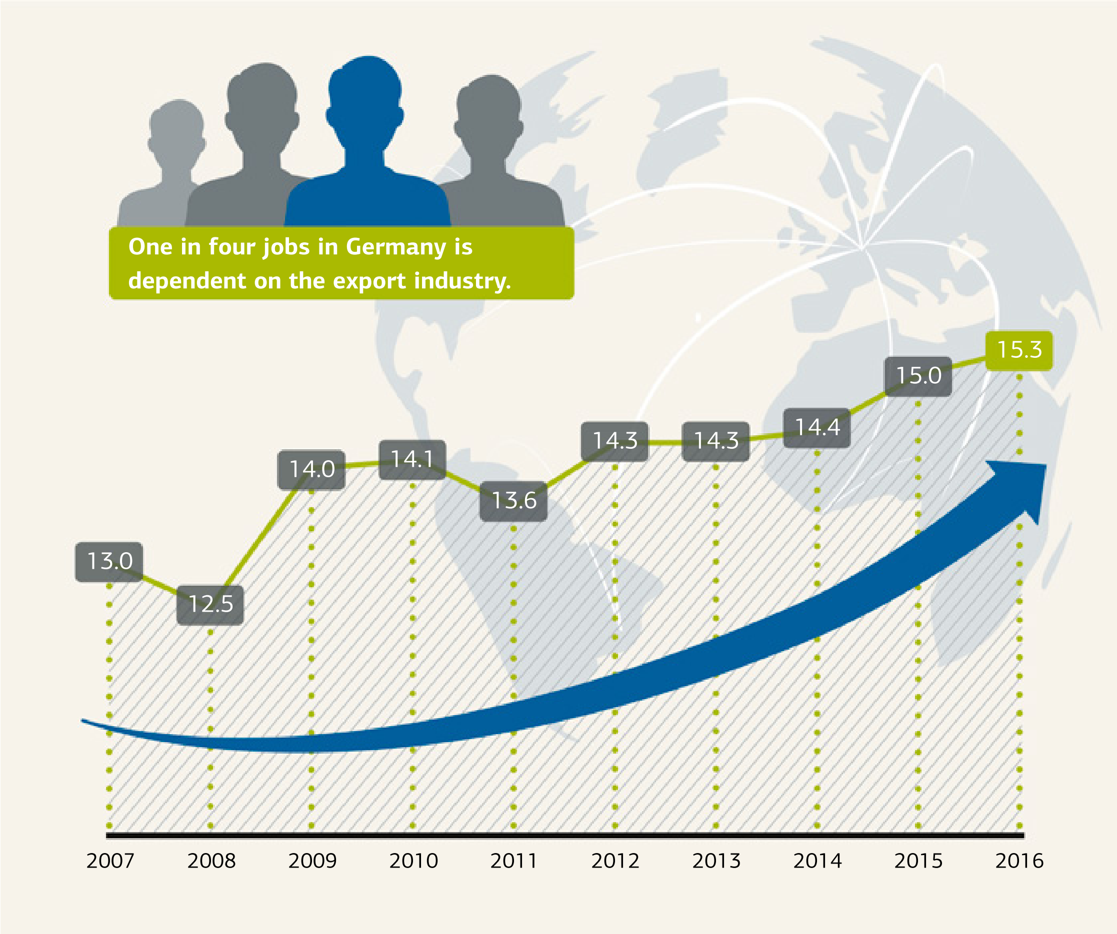
10 YEARS

Ten years serving the economy and society

Helping these companies to compete in the global marketplace is one of the most important tasks of KfW IPEX-Bank. Its commitment is based on the statutory mandate of KfW to provide finance to the German and European economies, a mission which KfW IPEX-Bank – for the last ten years as a legally independent company – is responsible for fulfilling. The bank thus makes a significant contribution to growth, prosperity and employment, which is also underlined by the fact that around one quarter of the national labour force works directly or indirectly in export industries.

Structuring medium and long-term financing for key industrial sectors, economic and social infrastructure projects, climate and environmental protection projects and projects aimed at securing the supply of raw materials is at the core of KfW IPEX-Bank's activities. The bank also supports research and development projects that help German and European companies to maintain and reinforce their technological leadership – an absolute must if they are to remain competitive at international level in the future.

Ensuring international competitiveness and employment
High-tech exports as a percentage of total exports



Source: Federal Statistical Office (*Statistisches Bundesamt – Destatis*), 2017

Specialist know-how and collaboration skills - always with an eye on our customers

At KfW IPEX-Bank, engineers and experts are involved in the lending process alongside financing experts specialising in particular industries, so that financing decisions are also well founded from a technical perspective. This ensures that clients can rely on a tailor-made financing structure for their investment project.

The bank also focuses on working closely with consortium partners to the benefit of its clients. When financing large-scale investments, KfW IPEX-Bank generally provides the required debt capital together with other market participants. These financing partners may be other German or international banks, or they may be institutional investors or supranational promotional institutions.

Experts and advisors on foreign trade promotion

Tailoring financing for successful export projects depends to a large extent on the right framework conditions being in place to promote foreign trade, and developing these conditions further in the face of progressing globalisation is always a high priority for policymakers. Government agencies, business and financial sector partners are therefore working together to make it possible for companies to calculate the risks involved in global business transactions and thus to facilitate the provision of export finance.

Due to its extensive knowledge and decades of experience, KfW IPEX-Bank has established itself as a competent advisor on matters relating to export finance – for businesses and policymakers.

In this respect, Export Credit Agencies (ECAs) play an important role as independently organised insurers with mandates to issue state and other guarantees for export finance. In Germany, this role is performed by the credit insurer Euler Hermes Deutschland, which provides export credit guarantees known as Hermes cover. KfW IPEX-Bank is well known internationally for its extensive experience with ECAs and regularly includes export credit guarantees in its tailored financing structures, thereby providing borrowers with more favourable maturities and borrowing costs. Coupling their offer with appropriate financing, often with ECA cover, improves European exporters' chances of securing deals. As an expert in export finance, KfW IPEX-Bank advises governments, parliaments and international organisations on matters relating to the promotion of foreign trade. With its in-depth knowledge of export finance and many years' experience with export credit guarantees, the bank has established itself as a competent and sought-after partner and advisor to ministries and parliamentary committees. It advises the German Federal Government in international forums on export finance and insurance, such as working groups of the European Council and the OECD, and draws on its expertise as an experienced specialist financier to advise the Interministerial Committee for Export Credit Guarantees. KfW IPEX-Bank is also represented on the so-called Hermes Panel of Experts, which deals with technical issues relating to Hermes instruments. It performs this expert advisory role in an honorary capacity at the request of the German Government.

2009

Innovative Siemens turbines for British wind farms

The financing of 54 wind turbines for the Lynn and Inner Dowsing offshore wind farms, alongside 20 wind turbines for the Glens of Foudland onshore wind farm, enables wind power generation to reach new dimensions. The 15-year GBP 375 million loan is for innovative Siemens wind turbines, each of which has a capacity of 3.6 megawatts. With a maximum combined capacity of 220 megawatts, the 74 wind turbines generate enough electricity for up to 143,000 typical local households.

The technical specifications are already impressive in 2009, as the 95-tonne rotor - driven solely by wind power and mounted on a 80-metre-high tower - has a diameter of 107 metres, equivalent to the length of an entire footfall pitch. In 2016 both wind farms are sold by the original operator to the UK Green Investment Bank Offshore Wind Fund together with further consortium partners – and continue to contribute to climate protection.

10 YEARS

Competitiveness requires reliable raw material supplies

German and European companies depend on reliable supplies of raw materials, including primary metals such as iron ore or copper. Increasingly, extraction is possible only in emerging countries, where unstable political systems often mean major investment risk. KfW IPEX-Bank is one of a small number of specialist banks around the world to have developed substantial expertise in this sector over the decades. With its medium and long-term financing solutions, it plays a key role in ensuring reliable supplies of raw materials. The involvement of mining engineers and other experts in the lending process ensures that not only financial factors are critically examined before making an investment, but also the geological, environmental, political and legal aspects. In addition to supporting the bank's sustainable approach, this chiefly reduces the risks involved.

Awards for outstanding financing transactions

In the last few years, many of the financing transactions structured by KfW IPEX-Bank have been named 'deal of the year' by leading international specialist magazines, and the bank received numerous awards for its financing transactions again in 2017. The prestigious magazine Project Finance International (PFI), for example, awarded the accolade of 'Asia Pacific Infra Deal of the Year 2017' to the project finance for expanding Australia's Melbourne Metro, a PPP project totalling approximately AUD 6 billion (around EUR 4 billion). In addition, the PFI jury panel and that of the specialist magazine Global Trade Review (GTR) both selected the financing of Swedish wind farm Markbygden ETT as 'Wind Deal of the Year', choosing this transaction over several hundred submissions. With a capacity of 650 megawatts, this project will be the largest single-site onshore wind farm in Europe and will increase Sweden's installed wind power generation by 12.5%. Together with three other banks, KfW IPEX-Bank is providing nearly EUR 500 million in long-term debt capital to the project, which has a total investment volume of some EUR 800 million.

The financing of two reduced-emission cruise ships for Royal Caribbean Cruises Ltd. (RCCL) also prevailed against the competition to be awarded 'Cruise Ship of the Year 2017' by specialist magazine Global Transport Finance (GTF). The debt capital of over EUR 2.5 billion needed to procure the ships, which are being built at the Meyer Turku shipyard in Finland, is being provided by an international consortium led by KfW IPEX-Bank. The ships, each able to accommodate more than 5,500 passengers, will be powered by liquefied natural gas (LNG) during regular operation, thereby significantly reducing emissions of harmful exhaust fumes.

These and other awards during 2017 are impressive proof of KfW IPEX-Bank's global excellence in structuring complex project and export finance transactions – and are testament to its performance.

2010

Energy-efficient combined cycle power plants in Oman

The construction of two energy-efficient combined cycle power plants, Sohar 2 and Barka 3 in Oman, is a milestone in the sustainability-driven development of the electricity sector in this region. The almost identically constructed Sohar 2 and Barka 3 power plants each have a capacity of 745 megawatts and have at their core two powerful gas turbines made by the German manufacturer Siemens, which save millions of tonnes of carbon dioxide emissions during operation.

As part of a consortium with other international banks and the Export-Import Bank of Korea, KfW IPEX-Bank participates in the syndicated financing of over USD 1.3 billion and provides part of the interest rate hedging. The bank acts as mandated lead arranger and Euler-Hermes coordination bank in the complex financing arrangement.

10 YEARS

Further information on our awards and the projects they relate to is available at:
www.kfw-ipex-bank.de/Awards

PFI AWARDS 2017

Global Transport Finance 2017 GTF AWARDS WINNER

GTR 2017 Best Deals

IJGlobal Awards 2017

Thinking ahead. Because it opens up new perspectives on renewable energy.

In Sweden we are financing Europe's largest single-site onshore wind farm as part of a banking consortium.

World's largest power purchase agreement with a wind power company

The largest single-site onshore wind farm in Europe to date is being developed in northern Sweden. With an installed capacity of 650 megawatts, Markbygden ETT will increase Sweden's wind power generation by 12.5% following its completion at the end of 2019.

Together with three other banks, KfW IPEX-Bank is providing long-term debt capital of just under EUR 500 million for the project. The complex financing structure has a mix of funding from promotional institutions, the export credit market and commercial banks familiar with the Nordic energy market. The owners of the wind farm, GE Energy Financial Services and Green Investment Group, are also investing over EUR 300 million in equity financing.

Innovative system to mitigate ice formation

The blades of the 179 wind turbines being supplied by GE Renewable Energy are equipped with an innovative ice mitigation system, ensuring a stable level of availability and reduced downtime.

Climate protection: a vital task for the future

With global warming and the increasing frequency and intensity of extreme weather events, the consequences of climate change are omnipresent. Since the mid-19th century, the global surface temperature has risen by approximately one degree Celsius, and according to scientists, this is predominantly the result of human activities. Tackling the causes and committing to energy transition are thus among the most important challenges for the future. This is also taken into account in the German Government's energy policy strategy, which aims to develop and implement ideas and measures for the environmentally sustainable life of tomorrow.

Financing renewable energy worldwide

As a leading project and export financier, KfW IPEX-Bank has a responsibility to support the energy transition for the benefit of the economy and society. By providing financing for energy-efficient combined cycle power plants, photovoltaic power systems and technologically demanding projects for harnessing onshore and offshore wind power, the bank contributes to sustainable, demand-oriented energy supply, while at the same time supporting German and European industry.

In the interest of contributing to energy efficiency improvements and climate protection, already in 2000 it was one of the first banks in Germany to introduce its own strict environmental and social guidelines for its financing projects. At international level, KfW IPEX-Bank joined the Equator Principles Financial Institutions (EPFIs) in 2008 and thus undertakes to comply, on a voluntary basis, with environmental, social and economic criteria in all projects that it finances.

2011

Five specialised Arctic ships for Greenland

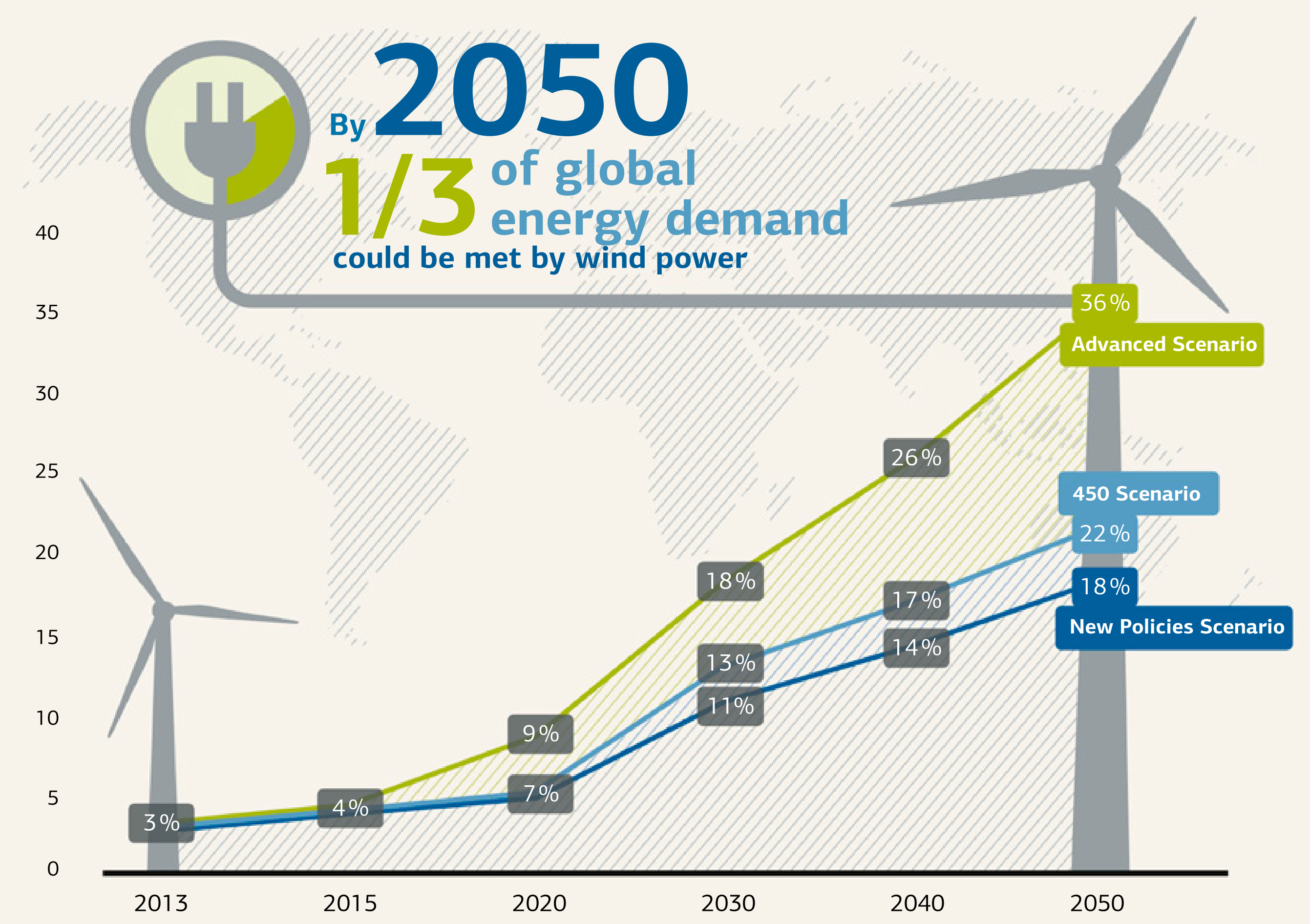
The financing of five ice-going transport vessels for the Greenland shipping company Royal Arctic Line aims to secure the year-round supply of goods to the population of the far north for the future. The new transport ships replace parts of an older fleet and are intended for scheduled services between Greenland and Denmark as well as between remote settlements along the Greenland coast. The ships, constructed specifically for Arctic conditions, are built at two German shipyards, Stralsund and Wolgast.

The financing of around EUR 72 million is backed by export credit cover from the Federal Republic of Germany (Hermes cover), and the transaction also involves funds from the German CIRR (Commercial Interest Reference Rate) ship financing scheme. By providing this financing, KfW IPEX-Bank contributes to job security in an innovative sector, while helping to modernise maritime infrastructure.

10 YEARS

Expanding wind power worldwide

Forecast share of wind power in global electricity consumption in %



New Policies Scenario

Although the International Energy Agency's (IEA) New Policies Scenario takes account of policy measures on climate protection that have already been decided and to some extent also announced, overall it assumes that the current development trends will continue.

450 Scenario

The 450 Scenario is based on the assumption that the two-degree target can be achieved through further measures to improve energy efficiency and decarbonise the energy system.

Advanced Scenario

This best-case trend incorporates a significant increase in wind power capacity in the calculation through implementation of ambitious expansion plans, as well as a climate policy that leads to an effective reduction in greenhouse gas emissions.

Sources: GWEC, Global Wind Energy Outlook 2016, IEA, World Energy Outlook

Wind power as a driver of Germany's energy transition

Due to its worldwide availability and economic competitiveness, wind power is considered to be a promising source of renewable energy. With a share in the power mix of around 13 %, it constitutes almost half of total renewable power in Germany today. At the end of 2016 there were 27,270 wind turbines in Germany producing green power for companies and households, with an installed capacity totalling 45,911 megawatts. Wind power is thus one of the most important sources in carbon-neutral electricity generation and plays a key role in energy policy.

Technological expertise and in-depth sector knowledge built up over the years have made KfW IPEX-Bank a reliable and respected partner to the German and European wind industry. It was one of the first banks to be active in the offshore wind segment, offering groundbreaking financing structures. Today at KfW IPEX-Bank, financing experts work closely with technical experts around the

Thanks to the technological expertise and in-depth sector knowledge that it has built up over the years, KfW IPEX-Bank is a respected partner to the German and European wind industry, which implements projects across the globe to support the investments of project developers, plant manufacturers, equipment exporters and the world's leading energy companies.

New wind turbines for Chile

KfW IPEX-Bank is also involved in the expansion of sustainable power generation in Chile. This South American country plans to generate up to 20% of its electricity from renewable energy sources by 2025.

Two new wind farms will contribute to this goal, one in Sarco in the Atacama region, and a second in Aurora in the Los Lagos region. With a combined capacity of 299 megawatts, the plants are expected to supply around 460,000 Chilean households with green energy following their completion in the second half of 2018.

KfW IPEX-Bank is supporting the Chilean project in the role of mandated lead arranger as part of an international banking consortium of multilateral and commercial banks. The modern wind turbines are being supplied by German manufacturer Senvion. The project finance totals USD 410 million, covering 70% of the total investment cost, with the remaining 30% being provided by the investor Aela Energía from own funds.

Green power from the ocean

Strong, constantly blowing winds out at sea make offshore wind energy a reliable energy source. At the end of 2017, a total of 1,196 offshore wind turbines in 20 offshore wind farms off the German coasts were connected to the grid – with an installed capacity totalling approximately 5,387 megawatts. These produce around 18.3 terawatt hours of climate-neutral power.

During the reporting year, KfW IPEX-Bank collaborated with other banks to play a part in the further expansion of wind energy infrastructure, for example by participating in the financing of the Deutsche Bucht project in the German North Sea exclusive economic zone, 95 kilometres north-west of the island of Borkum. Following its scheduled completion at the end of 2019, this offshore wind farm is expected to provide more than 178,000 households with green energy and save over 360,000 tonnes of CO_2 emissions on an annual basis. KfW IPEX-Bank participated in the financing as mandated lead arranger, facility agent and technical bank, alongside nine further international banks, and the consortium is providing the project with around EUR 988 million in debt capital.

With the support of KfW IPEX-Bank, the Trianel Borkum wind farm – which has a total capacity of 200 megawatts and has already been providing some 200,000 households with green electricity since September 2015 – is now

2012

Cutting-edge petrochemical plant engineering in India

By providing a loan of USD 2 billion, structured in equal parts of euros and US dollars, an international banking consortium led by KfW IPEX-Bank supports the Indian firm Reliance Industries Limited in an extensive expansion project. The transaction is backed by an export credit guarantee from the Federal Republic and has one of the highest levels of Hermes covers ever awarded.

Part of the complex financing transaction is drawn from KfW's ERP Export Financing Programme. The loan finances the supply of cutting-edge plant technology involving over 40 medium-sized German exporters. Reliance Industries is the largest private company in India and specialises primarily in oil and gas extraction, refineries and manufacturing intermediate and finished petrochemical products. The financing project enables the company to simultaneously expand its production capacity at four different company locations in India.

10 YEARS

being supplemented by the Trianel Borkum II wind farm (TWB II). As part of the syndicated financing for the second expansion stage, KfW IPEX-Bank has taken the leading roles of facility and security agent and is also acting as technical bank. In addition to KfW, which is providing EUR 300 million in promotional funds from its Offshore Wind Energy Programme, the banking consortium, which includes KfW IPEX-Bank, is granting a commercial loan of over EUR 300 million. This means that the project has a total of around EUR 600 million in debt capital at its disposal. Total investment costs for the 200-megawatt wind farm, located just under 45 kilometres off the island of Borkum in the German part of the North Sea, amount to approx. EUR 800 million. Project completion is slated for the end of 2019.

New logistics centre with high energy efficiency

Germany and the European Union have set themselves ambitious climate protection targets: They aim to reduce annual greenhouse gas emissions by 80% to 95% against the 1990 baseline year by 2050. As we progress towards greater environmental and climate protection, it is not just sustainable energy generation that plays a vital role but also corresponding measures to reduce CO_2 emissions, and energy-efficient logistics processes have an important function in this regard.

The new, highly efficient logistics centre of retailer REWE Group in Koblenz will meet the highest emission and environmental standards and is part of REWE Group's corporate environmental programme to substantially reduce CO_2. Once operational during 2018, the logistics centre is expected to use over 30% less energy than conventional buildings. Together with another bank, KfW IPEX-Bank is financing the construction of the modern central warehouse, which will supply supermarkets in Rhineland-Palatinate and North Rhine-Westphalia. The loan of up to EUR 58 million is being provided under KfW's Energy Efficiency Programme. KfW IPEX-Bank was also involved in financing REWE's highly efficient logistics centre in Neu-Isenburg in 2013.

2013

Fleet expansion at JetBlue Airways

JetBlue Airways is one of the five largest US carriers with a fleet of 243 modern aircraft as of December 2017. The popular budget airline carries 38 million passengers annually and offers more than 1,000 flights a day serving 101 destinations, including Latin America and the Caribbean. In 2013 JetBlue Airways Corporation orders two Airbus A321-200 to expand its fleet. The European-made airliner is one of the most fuel-efficient in its class. KfW IPEX-Bank provides the financing for a term of 10 years.

KfW IPEX-Bank has established itself internationally as one of the world's leading aviation financiers. Its customers include a large number of international scheduled passenger, cargo and charter airlines as well as aircraft manufacturers and leasing companies. The bank focuses on financing modern, fuel-efficient aircraft and engines that enable economical and environmentally friendly flight operation.

10 YEARS

REWE logistics centre project film

Designed to green standards, efficient and financed by KfW IPEX-Bank: One of Germany's most advanced logistics centres, employing around 500 staff in a state-of-the-art workplace.

Thinking ahead. Because ground-breaking projects require a high level of expertise from start to finish.

An international banking consortium is financing the expansion of the A7 motorway in the south of Lower Saxony with the aim of removing a bottleneck in regional infrastructure and strengthening trans-European transport networks.

Renovation and expansion of public infrastructure
KfW IPEX-Bank is financing the expansion of the A7 motorway between Bockenem and Göttingen together with the European Investment Bank (EIB), DZ Bank, DBJ (Development Bank of Japan) and CaixaBank. Along the 59.6-kilometre-long stretch, the road will be widened from four to six lanes on altogether 29.2 kilometres and two major bridges crossing over the motorway will be renovated. This is expected to eliminate a bottleneck in transport infrastructure in the south of Lower Saxony, while at the same time strengthening the Trans-European Transport Networks (TEN-T), which aim to improve cross-border connections within the EU by 2030. In addition to the expansion work, the project includes the operation and maintenance of the entire section of road for a period of 30 years.

Commitment to public-private partnerships
This project is structured as a public-private partnership (PPP) based on an availability model (known as the 'A-model'), under which the German Government will make payments to the private contractor according to the availability of driving lanes. The banking consortium, in which KfW IPEX-Bank is participating as facility agent and security agent, is providing a loan totalling EUR 420 million for the infrastructure project. This private-sector infrastructure project is being carried out by investors VINCI and Meridiam, who offered the most attractive variant bid in an international tender process organised by the German Government.

Moving forward with modern infrastructure

Increasing urbanisation and a growing population require the development of intelligent and reliable infrastructure that is efficient but also conserves resources. As the lifeline of a modern society, it is a prerequisite for the economy, employment and quality of life.

Foundations of a well-functioning world trade system

KfW IPEX-Bank has been involved in financing the development and modernisation of forward-looking infrastructure projects since the 1950s. With its high level of technical expertise, it supports companies in the aviation, maritime and rail transport, transport logistics and other logistics sectors. By supporting social infrastructure projects and increased digitalisation, it is also helping to ensure a secure supply of goods and services to the population. The bank equally focuses on supporting the German and European economies as well as on contributing to future-proof and sustainable structures.

Environmentally friendly transport systems take the pressure off cities

Environmentally friendly transport systems improve the quality of urban life and contribute to environmental and climate protection. Rail-based public transport, for example, causes fewer harmful emissions than other forms of transport and reduces the level of private traffic in towns and cities. Appropriate urban planning thus creates a framework for planning energy-efficient and environmentally friendly infrastructure.

A vivid example of this is one of the largest infrastructure projects in Australia – the modernisation and extension of Melbourne's metro network. The construction of a 9-kilometre-long twin tunnel with five architecturally impressive stations

2014

Zero-emission container transport at the Port of Long Beach, USA

In the 'green port' at Long Beach in California, one of the largest and most environment-friendly ports in the world, two older freight terminals are combined into a new, state-of-the-art container terminal with a final capacity of 3.3 million TEUs (twenty-foot equivalent units) per year.

The Chinese operator of the port, Orient Overseas Container Line, furnishes the new terminal superstructure with mobile equipment, including 72 fully automated, battery-powered special container transporters, together with a battery exchange station as well as a fleet management system for the automated guided vehicles and the quay and container storage cranes. This turnkey package of environmentally friendly cutting-edge technology is supplied by the German company Demag Cranes & Components GmbH. The financing in excess of USD 81 million marks the first time that KfW IPEX-Bank supports a German manufacturer of port equipment in the prominent US growth market.

10 YEARS

under the city centre aims to create additional capacity in the metro system, and this underground expansion of public infrastructure is expected to considerably reduce road traffic. In addition, the measures will shape a new cityscape in Australia's second largest city and make an active contribution to improving the climate and environment. In total, the investment volume of the PPP project amounts to around AUD 6 billion (approximately EUR 4 billion), and in addition to state subsidies, the project is being made possible predominantly by non-recourse project finance, which is being provided by a consortium of international banks that includes KfW IPEX-Bank.

High-speed networks are an objective of the Digital Agenda

Reliable and future-proof communication technologies in both urban and rural areas are essential to enable companies in Germany and Europe to harness opportunities offered by globalisation. According to a study by the *Wissenschaftliches Institut für Infrastruktur und Kommunikationsdienste (WIK)*, 75% of households will demand bandwidths of more than 500 Mbit/s in 2025. Nationwide high-speed networks, as envisaged by the German Government's Digital Agenda (Europe 2020), are expected to ensure the basic supply of fast internet for all, and high-performance fibre-optic networks will form the basis for all digital services.

2015

TUI Cruises upgrades fleet to meet higher environmental standards

Together with a consortium of European banks, KfW IPEX-Bank secures a major contract for the Meyer Turku shipyard by providing financing for two new cruise ships. The shipping company TUI Cruises, which is especially popular with German cruise tourists, commissions the ships from Meyer Turku for 2018 and 2019, with the aim of gradually replacing the older cruise liners Mein Schiff 1 and Mein Schiff 2. The intention is to help modernise the fleet whilst also setting new environmental standards.

As one of the world's leading ship financiers, KfW IPEX-Bank has supported the expansion of this successful company already since it ordered Mein Schiff 2. The overall financing of both new cruise vessels is structured by KfW IPEX-Bank, which acts as bookrunner in the banking consortium. The commissioned shipyard, Meyer Turku, specialises in building sophisticated, innovative and environmentally friendly ferries, special vessels and cruise liners.

10 YEARS

During the creation and expansion of broadband infrastructure in Cologne and the surrounding area, KfW IPEX-Bank supported the regional telecommunications provider NetCologne with a loan of EUR 30 million in 2017. This network operator and internet service provider has its own fibre-optic network in the greater Cologne region, which – with over 20,000 kilometres of laid cable – is one of the most modern in the whole of Europe.

KfW IPEX-Bank supports infrastructure projects carried out by the private sector, enabling modernisation and newbuild projects that greatly benefit the economy, environment and society.

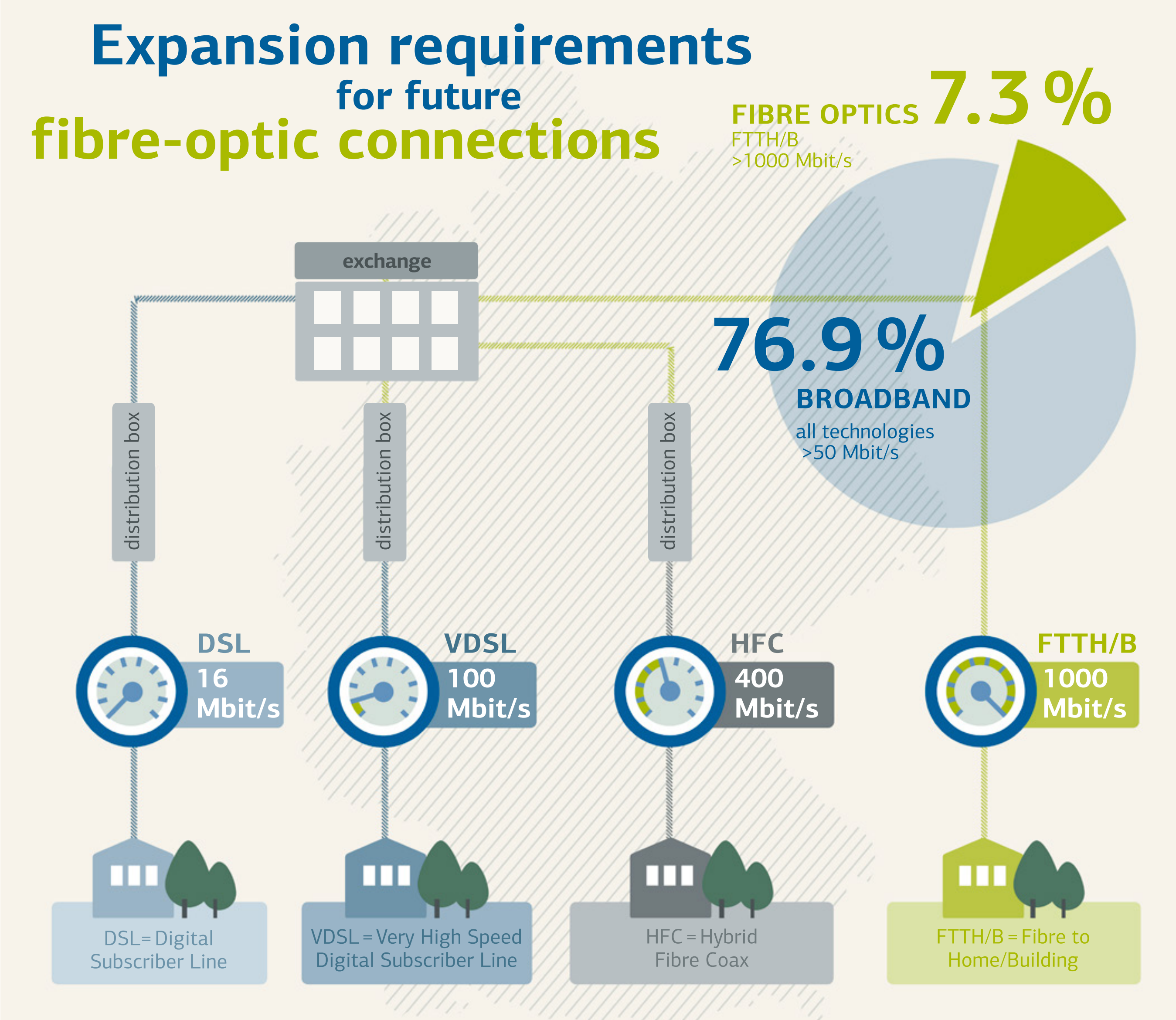
Cooperation between public and private sector

Infrastructure investors operate in a strictly regulated environment, and in-depth professional expertise is in demand – including when it comes to financing. This is where KfW IPEX-Bank steps in with its sectoral presence and structuring knowledge. As a specialist financier it has both the technical acumen to evaluate and monitor its projects, and the skill of an experienced modelling bank. Customers benefit from robust cash flow models and, ultimately, an optimised financing structure for their individual project.

Due to the massive investment required for infrastructure projects, public-private partnerships (PPP) are becoming increasingly important as a transparent means of procurement. In PPP arrangements, private companies build, operate and maintain public infrastructure. Projects can include social projects such as schools and hospitals as well as major road projects, such as the expansion of the A7. The PPP procurement model enables the modernisation of local communities using private capital, allowing the public sector to concentrate on its core responsibilities.

Financing Mbit power and ensuring digital connectivity

Connection technologies and their share in digital availability in German households in 2017



Sources: KfW IPEX-Bank, TÜV Rheinland on behalf of the German Federal Ministry of Transport and Digital Infrastructure *(Bundesministerium für Verkehr und digitale Infrastruktur – BMVI)*

Thinking ahead. Because it helps to advance clean propulsion technologies.

Royal Caribbean Cruises Ltd., the world's second-largest cruise operator, plans to use LNG as fuel.

Significant reduction in the production of climate-damaging emissions from ships

Two new cruise liners, each able to accommodate more than 5,500 passengers, are to be propelled by liquefied natural gas (LNG) during regular operation, leading to a significant reduction in emissions of harmful exhaust fumes. The debt capital of over EUR 2.5 billion needed for the acquisition of the two ships is being provided by an international consortium led by KfW IPEX-Bank.

Securing jobs for shipyards in Germany and Finland

The commission to build the two cruise vessels will ensure that the Meyer Turku shipyard operates at full production capacity until 2024. This will not only affect the shipyard site in Finland but also, to a high extent, the entire supplier network – including many medium-sized companies in both Finland and Germany.

Competent partner in export and project finance

KfW IPEX-Bank actively collaborates in the structuring of tailor-made syndicate financing and maintains close and trusting working relationships with its market partners.

KfW IPEX-Bank is responsible for the Export and Project Finance business sector within KfW Group. Its mission as a legally independent group subsidiary is to provide financing in the interests of the German and European economies and to assist the endeavours of German and European companies on global markets. In its role as a specialist financier, it helps to secure economic strength, employment and growth in Germany and Europe as a whole.

The bank's activities center around structuring medium and long-term financing for key industrial sectors of the export economy, for economic and social infrastructure projects and for projects to protect the climate and environment. In the majority of cases, KfW IPEX-Bank does not grant financing alone but provides the large volumes of debt capital required together with other financing partners, such as German or international banks, institutional investors and supranational promotional institutions. Besides providing loans, KfW IPEX-Bank's main contribution to syndicate financing arrangements is its structuring expertise, which facilitates the creation of resilient loan structures for future-proof investments – to the benefit of all parties.

Market environment: stable demand, with competition remaining intense

The global economy gained significant momentum in 2017, thus bringing to an end the period of sustained slowdown in growth since 2011. Both industrialised nations and developing and emerging countries contributed to this trend, and preliminary figures indicate that more than half of all countries worldwide grew at a faster rate than the previous year. After a weak start, the US economy gave a very robust performance, while Japan's economy grew more sharply than had been expected at the beginning of the year. The Chinese economy also performed strongly, benefiting from policy measures adopted in the previous year.

The global economy was helped by only moderate inflationary pressure and favourable international financing conditions. During the year, uncertainties over the political stability of the European Union, immediate implications of the Brexit decision and the political stance of the new US administration, namely with regard to trading issues, also eased. This in turn allowed global trade to grow more strongly than in recent years, boosted by continued recovery in investment activity in industrialised and emerging countries.

During 2017 demand for project and export finance, driven by high demand for capital goods, was once again met by at least equally high supply, resulting in a market characterised by stiff competition and declining margins. Due to the low interest rate environment, commercial banks from Europe, North America and Asia, as well as increasing numbers of institutional investors, are seeking investment opportunities in the lending market.

Successful 2017 financial year

In KfW's Export and Project Finance business sector – for which KfW IPEX-Bank is responsible – the bank provided new commitments totalling EUR 13.8 billion in 2017. Of this amount, EUR 12.1 billion (2016: EUR 14.4 billion) was attributable to original lending business and a further EUR 1.7 billion (2016: EUR 1.7 billion) to bank refinancing under the CIRR Ship and ERP Export Financing programmes. KfW IPEX-Bank participates in these schemes within the framework of agency agreements with KfW, which in turn is mandated to act on behalf of the Federal Republic for both programmes. Of its total commitments, EUR 8.3 billion constituted KfW IPEX-Bank's market business, while EUR 5.5 billion was trust business performed on behalf of and for the account of KfW.

In view of the high level of competition, during the reporting year KfW IPEX-Bank continued to consistently prioritise the quality of its credit exposure, thereby creating a balanced risk/return ratio. KfW IPEX-Bank's business activities confirm its role as a successful specialist financier for the German and European export industries, which it assists in their international ventures by providing appropriate, individually structured financing.

New commitments by sector department

All of KfW IPEX-Bank's sector departments made a positive contribution to the bank's result in 2017. In terms of industry sectors, the highest commitment volume came from the Power, Renewables and Water sector department at EUR 2.6 billion, a substantial part of which was attributable to onshore and offshore wind farms. This underlines KfW IPEX-Bank's commitment to making a significant contribution to the protection of the environment and to climate action. In 2017, the bank provided financing totalling EUR 2.0 billion for projects with a significant and measurable positive impact on the climate and environment. This corresponds to around 14.9% of the total commitment volume.

In the transport and transport infrastructure sectors, the Maritime Industries sector department generated commitments of EUR 1.6 billion, of which, for example, a good one third alone was for the financing of two low-emission LNG-fuelled cruise liners. In this way, KfW IPEX-Bank actively supports efforts to make the booming cruise industry as low as possible in emissions that are harmful to people and the environment.

Global presence secures support for export industries

KfW IPEX-Bank supports its customers both in industrialised countries and in growth markets in developing and emerging countries that are important for exports and direct investment. It also focuses on countries with limited access to financing.

2016

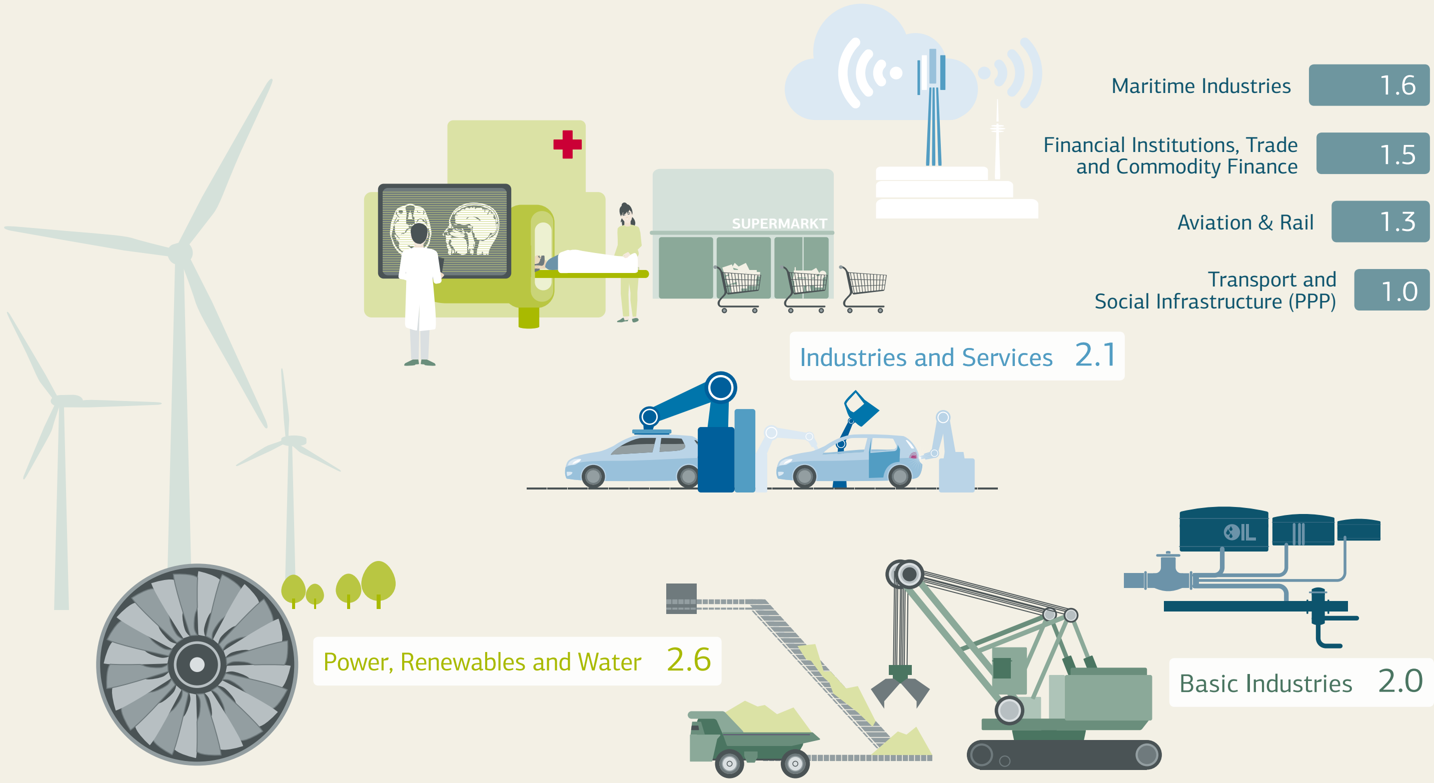
Expansion of Germany's largest data centre

KfW IPEX-Bank, BayernLB and Landesbank Baden-Württemberg jointly support the IT service provider T-Systems in the expansion of Germany's largest and most high-performance data centre to date in Biere in Saxony-Anhalt. The banking consortium provides a syndicated loan in the triple-digit million range for this purpose. In 2014, shortly after the completion of Biere 1 with 30,000 servers – also financed by the three banks – increasing demand from companies for secure and dependable cloud services was already leading to 70% utilisation, and an expansion of capacity was therefore planned at an early stage.

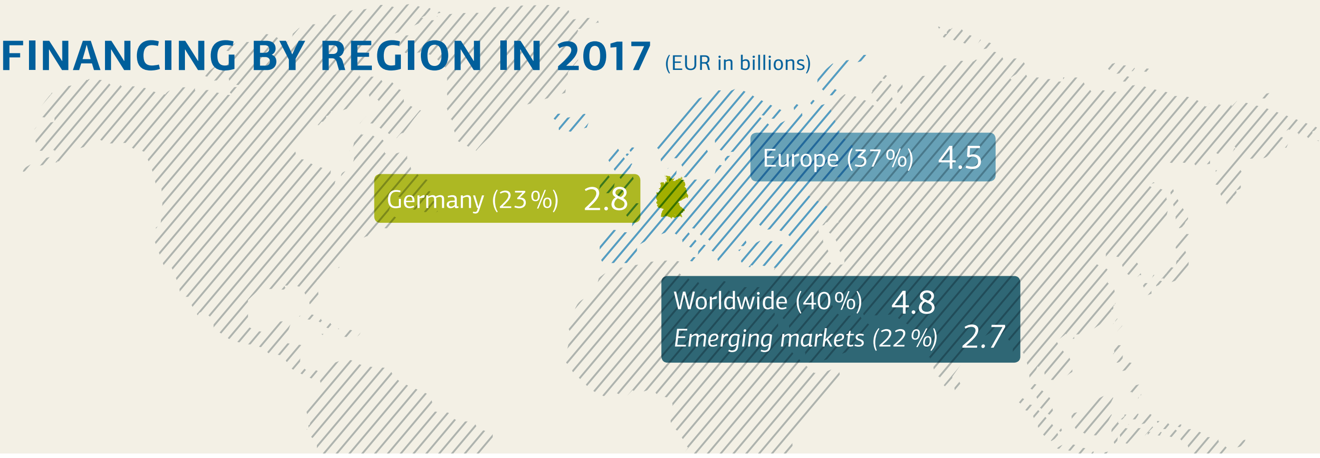
The Biere 2 data centre now being financed will house a further 45,000 servers with storage capacity of 150 petabytes covering a total surface area of 9,000 m^2. As well as providing data security, the project will fulfil the most stringent energy efficiency requirements, enabling funds from KfW's Energy Efficiency Programme to be incorporated in the complex financing arrangement.

10 YEARS

NEW COMMITMENTS BY SECTOR DEPARTMENT IN 2017 (EUR in billions)



FINANCING BY REGION IN 2017 (EUR in billions)



KfW IPEX-Bank's presence in key regions and foreign markets supports the sales success of the German and European export industries.

In 2017, Germany accounted for 23 % of new loan commitments, the rest of Europe 37 % and countries outside Europe 40 %, while 22 % of total original lending business was attributable to emerging markets.

KfW IPEX-Bank has a branch in London and nine foreign representative offices. A key element of its business strategy is its presence on international target markets that are important for German and European exports. This is in line with, and contributes to achieving, the bank's mission, namely to help the German and European export industries compete in the global marketplace and to provide financing worldwide for investment in infrastructure and transport, for environmental protection and climate action projects as well as for projects that secure the supply of raw materials.

Responsible action

KfW IPEX-Bank is committed to sustainability in its broadest sense which goes beyond environmental aspects and involves ensuring that the projects it supports have a positive social impact overall. To this end, KfW IPEX-Bank has developed its own comprehensive guideline for environmentally and socially sound financing (Sustainability Guideline). The distinctive feature of this guideline is that, in addition to compliance with internationally established regulations such as the Equator Principles and the OECD's ECA Common Approaches, the bank also conducts its own extensive appraisals for all its other financing products to verify that the conduct of its borrowers is environmentally and socially sound.

As part of the operational implementation of its Sustainability Guideline, KfW IPEX-Bank will provide financing only for projects that are implemented to its environmental and social standards. The bank may impose additional covenants to achieve this. When assessing project risk during the lending process, KfW IPEX-Bank receives support from KfW's experts in technical and social science disciplines, depending on the project's environmental category.

Economic and financial results

KfW IPEX-Bank can look back on a highly successful 2017. Its contribution to KfW's consolidated earnings amounted to EUR 469 million (previous year: EUR 484 million) and once again affirmed the role of the Export and Project Finance business sector, for which KfW IPEX-Bank is responsible, as one of KfW Group's main sources of earnings. The bank thus played an active part in securing KfW's long-term promotional capacity, despite intense competition and margin pressure.

The operating result of the business sector was EUR 581 million, below the level of the previous year (EUR 645 million). It mainly comprised net interest income and net commission income, less administrative expense, which rose slightly on the previous year. At the same time, total risk provisions fell during the reporting year. Although all recognisable risks continued to be assessed conservatively, the total valuation amounted to just EUR 92 million (2016: EUR 147 million), meaning that the overall result from ordinary business activities stood at EUR 489 million (2016: EUR 499 million).

KfW IPEX-Bank GmbH is a legally independent and separate reporting entity which performs all export and project finance market transactions. The bank reported a solid pre-tax profit from operating activities of EUR 113 million (2016: EUR 108 million).

The volume of lending in the Export and Project Finance business sector decreased to EUR 61.9 billion as of 31 December 2017 (2016 year-end: EUR 69.4 billion). The primary reason for the decline was the devaluation of the US dollar against the euro, since around 45 % of the bank's loans are denominated in US dollars.

Adding value to financing projects through structuring expertise

In 2018 KfW IPEX-Bank will strive to reinforce its position as a dependable specialist financier and strong partner to key industries that are vital to the German and European economies. The bank has established its position in the market through its proven structuring expertise, and it aims to work with market partners on a trusting basis to actively collaborate, in leading roles, in the structuring of tailor-made syndicate financing. It is therefore maintaining its sales and marketing activities at a high level across all sector departments and regions, and is selectively adding to its product portfolio. The bank will continue to hold the projects it finances to high environmental and social sustainability standards. As in previous years, we expect many of them to have a direct positive impact on the environment and climate. Given the growing competition and with a portfolio management strategy geared towards quality, KfW IPEX-Bank's target for new commitments in the 2018 financial year is EUR 16.3 billion.

Anniversary

10 years of KfW IPEX-Bank

Successfully supporting exports – reliable, trustworthy, forward-looking

KfW IPEX-Bank has been operating successfully in the market for ten years. On 1 January 2008, the bank was spun off from KfW as a legally independent limited company with 441 employees. Within KfW Group, it is responsible for the export and project finance activities that have been carried out since the 1950s.

Since its spin-off, KfW IPEX-Bank has financed more than 3,000 projects and disbursed new loans totalling EUR 143 billion. Over the last ten years its earnings have made a significant contribution to strengthening the capital and hence the long-term promotional capacity of its shareholder, KfW.

KfW IPEX-Bank can draw on six decades of experience and, at the same time, presents itself as a modern bank through its continuous market and customer orientation, with a clear service commitment as a specialist financier and relationship bank. By delivering tailor-made financing for German and European exports and investment projects, it has provided reliable support to companies in their endeavours to compete in the global marketplace. Happy Birthday!

10 YEARS

A progressive and responsible human resources policy

KfW IPEX-Bank owes a great deal of its long-term market success as a leading project and export financier to the extraordinary commitment and excellent work of its highly motivated employees. Placing trust in all employees and showing an appreciation of their work, as well as a progressive and responsible human resources policy, are firmly established components of KfW IPEX-Bank's corporate culture.

KfW IPEX-Bank employed an average of 680 members of staff in 2017 (previous year: 666). The proportion of employees working part-time increased further from 21.0% in the previous year to 23.3% at year-end. Female staff made up 47.0% of the workforce. The proportion of women in management has also increased again and now stands at 27.3% (previous year: 26.3%). The proportion of disabled employees was 1.8% at year-end (previous year: 1.5%), and this figure is set to rise continuously. The average age of the bank's employees was 42 years, and the staff turnover rate adjusted for retirement was 5.0% in 2017 (previous year: 2.1%), taking account of transfers within the Group.

A remuneration system linked to performance and market developments

KfW IPEX-Bank's remuneration system helps to promote the bank's attractiveness as an employer. As a major institution within the meaning of the Remuneration Ordinance for Institutions (*Institutsvergütungsverordnung – InstitutsVergV*), KfW IPEX-Bank observes regulatory requirements regarding the appropriateness of its remuneration systems. These

Personnel key figures

Employees	680
Part-time employees	23.3%
Average age	42.2 years
Proportion of female staff	47.0%
Proportion of male staff	53.0%
Proportion of women in management	27.3%
Proportion of disabled employees	1.8%

are designed to link all employees' remuneration with personal performance and sustained success at bank, department and individual level, and are set out transparently and in a way that is easy to understand. There is a balanced combination of fixed and variable remuneration, which is structured in such a way that there are no incentives for employees to take disproportionately high risks.

Gender-sensitive culture

KfW Group's commitment to gender equality is high – including when compared to other organisations. It is a key component of the human resources policy and is firmly established in KfW IPEX-Bank's guidelines. In accordance with the German law on equal participation of women and men in management positions in the private and public sectors, KfW IPEX-Bank continues to pursue its objective of increasing the proportion of women in management positions (see also the Notes in the Management Report) and ensuring that the issue of gender balance is further embedded in corporate culture. During 2017, further measures were initiated to foster (female) leadership potential with the introduction of the 'Leadership Prospects' scheme.

Since childcare and caring for relatives are both important factors for women and men when it comes to balancing work and family life, two members of KfW IPEX-Bank's staff have been trained as 'care guides', whom employees can approach as a first point of contact if they have any queries concerning caring responsibilities. These care guides navigate employees through the options offered by KfW IPEX-Bank and support them by providing information on statutory provisions, the offerings specific to KfW IPEX-Bank and further helpful tips. During 2017, KfW IPEX-Bank was also recognised for its strategically focused and family-oriented human resources policy with 'audit berufundfamilie' ('work and family audit') certification. This is the sixth time that the bank has been certified by this initiative, which was set up by the non-profit Hertie foundation. KfW IPEX-Bank was among the first companies to receive certification in 2001 and has been certified on a continuous basis since that time.

KfW IPEX-Bank has a well-established tradition of supporting work-life balance, and its high importance is reflected in the numerous options available to staff, which are updated regularly to accommodate new needs.

Modern staff development

To ensure employees and management can continue to work effectively in the future, staff development at the bank concentrates on continuously adapting professional skills from an early stage, on developing modern management tools and on identifying and promoting talent. The focus in 2017 was on the following areas:

Promoting young talent – trainee programmes

A central focus of our human resources strategy is the training of graduates, who can take part in a 15-month trainee programme at KfW IPEX-Bank. In 2016, the trainee programmes were extensively evaluated and redesigned, and the revisions were implemented during the 2017 reporting year. During this process, the content in the 'Market' and 'Risk' trainee programmes has been updated to prepare trainees in a more targeted manner for the roles they will go on to assume. This revised content includes compulsory professional and personal training modules, individual mentoring by top-tier management and new formats to improve the integration of trainees and their identification with KfW IPEX-Bank.

Zertifikat seit 2001
audit berufundfamilie

For more information, visit:
www.kfw-ipex-bank.de/HR

KfW IPEX-Bank Academy

KfW IPEX-Bank places great emphasis on the continuous professional development of its employees. The in-house training catalogue now includes over 50 different training courses, some of which are taught in English, and around 100 events were held at the KfW IPEX-Bank Academy in 2017. Employees participate in a broad spectrum of topics, ranging from training on credit processes or sales through to communication seminars and separate units for managers. The entire offering is aimed at maintaining on-the-job professionalism of employees at its already high level or increasing it even further.

Nearly 70 % of all training sessions are run by the bank's in-house experts, which enables the organisation to retain valuable experience and relevant knowledge. External partners are generally used for special topics such as sessions relating to management and communication.

Annual development meetings are held between managers and employees, who work together to identify areas for development and set these out in a training plan.

Employer branding and personnel marketing

Career fairs

Since face-to-face contact with potential candidates is essential, KfW IPEX-Bank took part in a number of career fairs during 2017.

Fair Company and Top Employer

KfW IPEX-Bank participates in the Fair Company initiative along with a further 600 businesses. This is the largest employer initiative in Germany for students and young professionals, and aims to ensure that university graduates and interns are treated fairly and not used as substitutes for full-time positions. In 2017, KfW IPEX-Bank also again won recognition for its commitment in this area under the charter of fair and career-enhancing trainee programmes (*Charta karriereförderner und fairer Traineeprogramme*), while the Top Employers Institute reperformed its independent evaluation of KfW IPEX-Bank and awarded it Top Arbeitgeber Deutschland 2017 (top employer in Germany in 2017) certification.

Works council and representation of disabled employees

Successful human resources policy is based on a social partnership that is put into practice and takes account of employees' interests. The works council with its 11 members plays a key role in achieving this, and a close, trusting working relationship exists with the works council with regard to all relevant topics. Working in collaboration with the representatives for disabled employees, the number of employees with disabilities was increased further in 2017.

Management Report

Economic Report

General economic conditions in 2017

The global economy gained significant momentum in 2017, thus bringing to an end the period of sustained slowdown in growth since 2011. Both industrialised nations and developing and emerging countries contributed to this trend, and preliminary figures indicate that more than half of all countries worldwide grew at a faster rate than the previous year. After a weak start, the US economy gave a very robust performance, and Japan's economy grew more sharply than had been expected at the beginning of the year. The Chinese economy also performed strongly, benefiting from policy measures undertaken in the previous year. The global economy was helped by only moderate inflationary pressure and favourable international financing conditions. During the year, uncertainties over the political stability of the European Union, immediate implications of the Brexit decision and the political stance of the new US government, particularly with regard to trading issues, also eased. This in turn allowed global trade to grow more strongly than in recent years, boosted by continued recovery in investment activity in industrialised and emerging countries.

Economies in member states of the European Economic and Monetary Union (EMU) performed surprisingly well over the past year, recording the strongest growth since 2007. Overall, economic output in the EMU countries in 2017 was up by 2.5% year-on-year, a stronger increase than KfW had anticipated a year previously. Growth is now broad-based, both regionally and on the demand side. Consumer spending confirmed its role as a dependable growth driver, underpinned by ongoing improvements in the labour market and accompanying income growth. Additional impetus came especially from the pick-up in global trading activity, from which the European economy benefited despite the appreciation of the euro throughout the year. Combined with decreasing political risks over the course of the year, external economic tailwind led to a marked improvement in business sentiment, with companies subsequently overcoming their reluctance to invest and taking greater advantage of favourable financing conditions.

According to initial estimates from the Federal Statistical Office (*Statistisches Bundesamt*), the German economy grew by 2.2% in 2017, once again recording even stronger growth than in 2016 (+1.9%). A year ago, KfW had forecast a slowdown in economic growth to 1.3% for 2017. As was the case for most forecasters, it thus underestimated actual GDP growth; at the end of 2016, publicly available growth forecasts for 2017 had ranged from 0.9% to 1.7%. The main reason for the overly-prudent – from an ex-post perspective – growth forecasts for 2017 was the assessment of political uncertainties at that time. Notably, KfW had assumed that in view of Germany's export focus, the unclear implications of the Brexit vote and the risk of the USA imposing restrictions on the international trading system would permit only a moderate increase in corporate investment – despite favourable conditions per se, such as already high utilisation of industrial capacity. These risks did indeed make firms more reluctant to invest but far less than had been feared, with private-sector investment in equipment actually picking up pace in 2017. At the same time, housing construction and consumer spending maintained their clear upward trajectory, making a noticeable contribution to the robust annual growth. Despite a pick-up in import and export growth, the trade balance had an only moderately stimulating effect on economic growth.

Overall, financial markets performed well in 2017, avoiding turbulence. One striking feature was the strong equities performance on both sides of the Atlantic coupled with very minor price fluctuations and volatility indices that were at historically low levels. The optimism of equity investors was fuelled by a surprisingly strong global economy together with the continued highly expansionary monetary policies of major central banks, which maintained interest rates at an extremely low level, especially in Europe and Japan. In addition, 2017 saw international investors returning their focus to euro-area investments, a major trigger for this being the victory of pro-EU candidate Emmanuel Macron in the French presidential elections. Lastly, investor sentiment was lifted once again at year-end by the adoption of US tax reforms. The price of crude oil also showed a marked recovery in 2017, among other things helping oil-exporting economies to achieve more growth, which on balance is likely to have supported the global economy.

The European Central Bank began a gradual withdrawal of its unconventional monetary policy in 2017, cutting its monthly purchases of securities from EUR 80 billion to EUR 60 billion from April onwards. Subsequently, in light of more stable inflation combined with strong economic conditions, in the autumn the ECB announced its decision to halve the volume of its securities purchases from January 2018, and to continue them at this level until at least September 2018. At the same time, it reiterated during 2017 that it would not raise interest rates for the first time until well after the end of the asset purchase programme. While euro-area money market rates remained virtually unchanged against this backdrop – at historically low levels (and in negative territory) – capital markets saw slight increases in interest rates.

The USD/EUR exchange rate rose appreciably in 2017, from around USD 1.05 per euro at the beginning of the year to USD 1.20 by year-end. The strength of the euro was not attributable to a decline in the US dollar's interest rate advantage; rather, it came about due to international investors switching their focus back to the euro area following the positive outcome of the French presidential elections. From that point onwards, the USD/EUR exchange rate rose noticeably, before stabilising in the autumn. The average USD/EUR exchange rate in 2017 was USD 1.13 per euro, just above the previous year's level of 1.11.

Business development in 2017

KfW IPEX-Bank, which is responsible for the Export and Project Finance business sector within KfW Group, provides financing in the interests of the German and European economies. This activity is derived from KfW's statutory mission, which is set out in Article 2 of the German Law Concerning (KfW-*Gesetz*).

During 2017, the market environment for the bank's activities was influenced by an upturn in the global economy. Consequently, demand for the capital goods that are financed by KfW IPEX-Bank was favourable during the reporting year, although with significant regional weaknesses due to political uncertainties and sanctions in relation to exports in individual countries. On the other hand, the supply of high-volume export and project financing remained fiercely competitive in 2017. Both banks and, increasingly, institutional investors continued to record high levels of liquidity and investment pressure.

In new business, KfW IPEX-Bank concentrated on borrowers with good ratings, structuring financing for projects backed by good collateral and supporting long-standing customers. KfW IPEX-Bank conducted the majority of its financing transactions as a partner in club or syndicate financing arrangements with other national and international banks. In KfW's Export and Project Finance business sector – for which KfW IPEX-Bank is responsible – the bank provided financing totalling EUR 13.8 billion in 2017. It generated a commitment volume of EUR 12.1 billion in its original lending business (2016: EUR 14.4 billion), and there were also new commitments of around EUR 1.7 billion (2016: EUR 1.7 billion) for bank refinancing under the CIRR ship financing scheme. KfW IPEX-Bank participates in this scheme within the framework of an agency agreement with KfW (agent acting on behalf of the Federal Republic).

During 2017 KfW IPEX-Bank underlined its business model as a successful specialist financier for the German and European export economies, which it assists in their international ventures by providing appropriate, individually structured financing. Of these total commitments, EUR 8.3 billion were attributable to KfW IPEX-Bank's market business, and EUR 5.5 billion constituted trust business performed on behalf of and for the account of KfW. KfW IPEX-Bank has a branch in London and nine foreign representative offices. A key element of its business strategy is its presence in important international target markets for the German and European export industries. This is in line with the bank's mission to help the German and European export economies compete in the global marketplace and to provide financing for investment in infrastructure and transport, for environmental and climate protection projects and for projects that secure the supply of raw materials.

KfW IPEX-Bank funds itself almost entirely through borrowings from KfW, at terms and conditions in line with KfW IPEX-Bank's rating on capital markets. During the course of 2017 these funding costs decreased for KfW IPEX-Bank, as they also did for other European commercial banks. Bolstered by the global economic optimism prevailing at the start of the year, funding costs of European financial institutions fell up to the end of February. From March to the end of June, in the wake of two interest rate hikes by the US Federal Reserve, the funding costs of banks moved sideways, albeit with some fluctuations. In July funding costs of European banks declined significantly, underpinned by the low interest rate environment and positive economic outlook. The escalating war of words between North Korea and the USA put an end to this downward trend, leading to uncertainty in capital markets and rising risk premiums towards the end of September. In the fourth quarter, the funding costs of European financial institutions benefited from the ECB's continued low interest rate policy and the once again improved economic climate in the euro area. They thus remained stable despite the risk posed by the US Federal Reserve's further interest rate rise in December. This meant that averaged over 2017 as a whole, KfW IPEX-Bank's funding costs were below the level of the previous year overall, both in euro and when taken together with the similar decline in US dollar funding costs.

KfW IPEX-Bank has an AA+ rating from Standard & Poor's and an A2 rating from Moody's. During 2017 both rating agencies confirmed their rating of the bank without change.

Overview of results of operations, net assets and financial position

KfW IPEX-Bank generated a strong profit from operating activities before taxes of EUR 113 million in the reporting year. While the level of operating income before risk provisions and valuations achieved for the previous year was not quite matched, the satisfactory result in risk provisions and valuations made a significant contribution to the good result. After taking into account withdrawals from the fund for general banking risks established in accordance with Section 340g of the German Commercial Code (*Handelsgesetzbuch – HGB*) – due to ongoing adjustments to movements in the USD exchange rate – profit from operating activities exceeded that of the previous year by EUR 5 million (+5%).

Operating income before risk provisions and valuations was EUR 147 million, down EUR 137 million (–48%) year-on-year, a significant decrease. As the bank's most important source of earnings, net interest income (EUR 294 million) was down EUR 42 million (–13%) on the exceptionally high result of the previous year, which among other things had benefited from a one-off effect. Overall, net commission income (EUR 150 million) stabilised around the normal level of the previous year. Administrative expense amounted to EUR 234 million, comprising personnel expense of EUR 99 million and other administrative expense, including depreciation on intangible assets and property, plant and equipment, of EUR 135 million. This equates to an overall increase of EUR 17 million (+8%), resulting primarily from higher charges in relation to staff pension commitments following the sustained low interest rate period. Other operating income and expenses of EUR –63 million (previous year: EUR +12 million) mainly comprised foreign exchange losses (EUR –46 million). Withdrawals from the fund for general banking risks pursuant to Section 340g of the German Commercial Code (EUR 44 million), which appear as a separate item in the income statement, also relate to the bank's foreign exchange result. In view of the large proportion of USD-denominated loans in the bank's total assets (43%), KfW IPEX-Bank maintains a fund for general banking risks, which serves to strengthen its tier 1 capital and stabilise solvency ratios against fluctuations in the US dollar exchange rate.

Risk provisions and valuations were down significantly year-on-year at EUR –78 million, a decrease of EUR 86 million (–52%). This satisfactory development was mainly due to the risk provision result in lending business of EUR –63 million, which was down EUR 103 million on the previous year (–62%). While the moderate increase in risk provisions required resulted predominantly from individual NPL cases, risk provisions were also affected by the utilisation of specific risk provisions recognised in prior periods in connection with portfolio optimisation measures in the Maritime Industries sector department. Over the reporting year, KfW IPEX-Bank covered all recognisable risks through its conservative risk assessment approach.

Accordingly, this resulted in operating income before taxes of EUR 69 million, and after taking into account withdrawals from the fund for general banking risks in accordance with Section 340g of the German Commercial Code (EUR 44 million), profit from operating activities before taxes of EUR 113 million.

KfW Beteiligungsholding GmbH, a wholly-owned subsidiary of KfW, is the sole shareholder of KfW IPEX-Bank. Back in 2016 the two companies concluded a profit transfer agreement in order to form a corporate income tax (CIT) fiscal unity, and as part of the implementation of this profit transfer agreement, KfW IPEX-Bank (as the controlled company) transfers its entire profit under German commercial law for the 2017 financial year to KfW Beteiligungsholding GmbH (as the controlling company). In view of this, taxes on income primarily comprise income tax expense for the branch office in London (EUR 2 million), and a trade tax refund in relation to previous financial years for the Frankfurt headquarters (EUR 2 million) has also been taken into account. According to the transfer provisions in the agreement, the obligation to transfer annual profit (EUR 113 million) arises at the close of the financial year on 31 December 2017; accordingly, KfW IPEX-Bank reported a 'zero result' at the 2017 year-end. The profit was transferred to the controlling company once the annual financial statements had been approved by the general shareholders' meeting in March 2018.

Total assets were EUR 25.4 billion on the balance sheet date, a year-on-year decrease of EUR 4.0 billion (–14%). The reduction was driven by loans and advances to banks and customers (EUR 22.9 billion or 90%), which are attributable almost entirely to the bank's credit portfolio. The carrying amount of loans reduced by EUR 3.7 billion (–14%) in comparison to the previous year. Volume effects played a part in this: In addition to the sale of exposures as part of steps to optimise the portfolio, the reduction reflects the subdued development in new business over the past financial year. The depreciation of the US dollar (–14 %) in comparison to the 2016 year-end rate also curbed total assets. During the past financial year, KfW IPEX-Bank operated in a tough market environment, characterised among other things by extremely high liquidity and increasing competition. Against this backdrop, in new business the bank concentrated on borrowers with good ratings and appropriate collateral, in order to maintain a balanced risk/return profile in its credit portfolio in the future. Bonds and other fixed-income securities (EUR 2.1 billion) primarily comprise a portfolio of high-quality and highly liquid assets consisting of KfW securities, which are held in order to satisfy the regulatory liquidity coverage ratio (LCR). On the liabilities side, the main decline during the reporting period was in liabilities to banks (EUR 20.0 billion), a decrease of EUR 3.7 billion (–16%), as a result of the decline in total assets and associated lower funding requirement. This balance sheet item mainly consists of ongoing funding of the bank, which is carried out almost entirely through borrowings from KfW. The refinancing mix comprises promissory note loans as well as call money and term borrowings, and also includes borrowings via the issuance of registered Public Pfandbriefe, with KfW as the sole investor. In accordance with the statutory termination provisions set out in Section 489 of the German Civil Code (*Bürgerliches Gesetzbuch – BGB*), and after receiving authorisation from the German Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht – BaFin*), KfW IPEX-Bank terminated a USD 500 million tranche of the subordinated loan granted by KfW prematurely, reimbursing it on 29 September 2017. The early redemption took place as part of measures to optimise the structure of regulatory capital, and the remaining tranche of an equal amount is due at maturity on 31 December 2019 in accordance with the contractual agreement.

The volume of business (EUR 33.3 billion), which includes financial guarantees and irrevocable loan commitments as well as total assets, decreased by EUR 4.4 billion (–12 %) year-on-year. The market developments described led to a moderate reduction of EUR 0.3 billion (–5 %) in irrevocable loan commitments, in addition to the decline in total assets.

KfW IPEX-Bank's regulatory own funds totalled EUR 4.3 billion as of 31 December 2017. The bank's capital ratios once again increased substantially versus the previous year-end: total capital ratio = 27.18 % (previous year: 20.47 %), tier 1 capital ratio = 23.41 % (previous year: 17.75 %) and CET1 capital ratio = 20.23 % (previous year: 14.65 %).

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

Earnings position

	1 Jan.–31 Dec. 2017	1 Jan.–31 Dec. 2016	Change	
	EUR in millions	EUR in millions	EUR in millions	%
Net interest income[1]	294	336	–42	–13
Net commission income	150	153	–3	–2
General administrative expense	–234	–217	17	8
Other operating income and expenses	–63	12	–75	<–100
Operating income before risk provisions/valuations	**147**	**284**	**–137**	**–48**
Valuations from securities and investments	–15	2	17	>100
Risk provision result in lending business	–63	–166	–103	–62
Risk provisions and valuations, total	**–78**	**–164**	**–86**	**–52**
Operating income before taxes	**69**	**120**	**–51**	**–43**
Withdrawals from/additions to the fund for general banking risks as per Section 340g of the German Commercial Code (HGB)	44	–12	56	>100
Profit/loss from operating activities before taxes	**113**	**108**	**5**	**5**
Taxes on income	0	–3	–3	–100
Profit transferred due to a profit pooling, profit transfer or partial profit transfer agreement	–113	–105	8	8
Net income for the year	**0**	**0**	**0**	**–**

[1] Including current income from equity investments

KfW IPEX-Bank generated a strong profit from operating activities before taxes of EUR 113 million in the 2017 financial year, thus exceeding the previous year's result by EUR 5 million (+5 %). This is composed of operating income before risk provisions and valuations (EUR 147 million) and the result from risk provisions and valuations (EUR –78 million). Although operating income before risk provisions and valuations did not match the high level of the previous year, overall performance was driven primarily by the positive result for risk provisions and valuations. Withdrawals from the fund for general banking risks (EUR 44 million) due to adjustments to movements in the USD exchange rate were a further component.

Net interest income and net commission income

Net interest income and net commission income amounted to EUR 444 million, remaining the main sources of earnings for the bank. They comprised net interest income of EUR 294 million and net commission income of EUR 150 million. This contribution to earnings represented an overall decrease of EUR 45 million (–9 %) compared to the very high result achieved in the previous year.

As the most important component, net interest income comprises interest income including income from equity investments of EUR 682 million, which is offset by interest expense of EUR 388 million. The bank's lending business and money market transactions accounted for the majority of interest income (EUR 680 million), and this figure also includes interest-like income of EUR 23 million in the form of commitment fees for loans not yet disbursed. In addition, this item contains income from bonds and other fixed-income securities (EUR 2 million).

Interest expense of EUR 298 million relates primarily to ongoing funding of the bank. It also includes interest expenses for the hybrid capital instruments of the silent partner contribution (EUR 19 million), subordinated liabilities (EUR 18 million) and expenses from interest rate, foreign exchange and cross-currency swaps (EUR 43 million).

At an overall figure of EUR 150 million, net commission income stabilised at the level of the previous year. Commission income totalled EUR 153 million, with the largest share (EUR 108 million) attributable to payments from KfW for the E&P trust business administered by KfW IPEX-Bank as a trustee. The item also includes income from processing fees in the market business (EUR 41 million) and in the form of guarantee commissions (EUR 12 million). In two cases in July 2017, the German Federal Court of Justice (*Bundesgerichthof – BGH)* ruled that boilerplate clauses contained in commercial loan agreements concluded by banks – which provide for the payment of loan administration/processing fees, irrespective of the term of the contract – are invalid. These rulings supplement the BGH case law of 2016 in relation to equivalent processing fees agreed in consumer loan agreements. KfW IPEX-Bank has recognised an appropriate provision to cover any potential obligations to repay borrowers, in accordance with principles of prudent business judgement. EUR 9 million was allocated to this provision and charged to commission income. A further EUR 2 million was provided to cover any potential liability to repay the benefits obtained from use, and was charged to interest income. Commission expense amounted to EUR 4 million and was primarily attributable to fees for guarantees received in connection with the lending business.

Administrative expense

Administrative expense totalling EUR 234 million comprised personnel expense (EUR 99 million) and other administrative expense including depreciation and impairment on intangible assets and property, plant and equipment (EUR 135 million). Administrative expense increased by a total of EUR 17 million (+8 %) year-on-year.

Personnel expense included expenditure of EUR 73 million for wages and salaries and a further EUR 26 million for social insurance contributions, pensions and other employee benefits. These include appropriations to provisions for the staff pension scheme (EUR 18 million), which were significantly higher than the previous year, primarily as a result of the sustained period of low interest rates. In the previous year, legal reforms with regard to Section 253 (2) of the German Commercial Code led to an adjustment in the valuation of provisions with a residual term of more than one year. This extended the period over which the average market interest rate used to discount provisions for pension commitments is calculated from seven to ten years, leading to a significant reduction in personnel expense.

Other administrative expense primarily comprised expenses for services used (EUR 70 million), office operating costs (EUR 27 million) and occupancy costs (EUR 11 million). KfW IPEX-Bank obtains the vast majority of general services and project services from KfW (EUR 99 million), and an additional EUR 23 million in services were provided to the bank by entities outside of the Group. Expenditure for the EU bank levy amounting to EUR 13 million (previous year: EUR 11 million) is also reported under other administrative expense. Overall, other administrative expenses were up slightly year-on-year by EUR 3 million (+2 %).

Administrative expense

	2017 EUR in millions	2016 EUR in millions	Change EUR in millions
Wages and salaries	73	73	0
Social insurance contributions	8	8	0
Expense for pension provisions and other employee benefits	18	4	14
Personnel expense	**99**	**85**	**14**
Non-personnel expense	**135**	**132**	**3**
Administrative expense	**234**	**217**	**17**

Other operating income and expenses

Other operating income and expenses of EUR –63 million mainly comprised foreign exchange losses (EUR –46 million), reflecting the sharp depreciation of the US dollar during the past financial year. This was offset by the ongoing adjustment of the fund for general banking risks as per Section 340g of the German Commercial Code (EUR 44 million) to changes in the USD exchange rate. Although this is a component of foreign currency valuation, it is reported separately in the income statement as 'Withdrawals from/additions to the fund for general banking risks'. Furthermore, the other operating income and expenses item essentially comprised an appropriation to provisions for contingent losses (EUR 22 million) for derivatives concluded in connection with the lending business. This was offset by income from the reversal of provisions no longer required (EUR 4 million) and services to group companies (EUR 2 million).

Risk provisions and valuations

Risk provisions and valuations were down significantly year-on-year at EUR –78 million, a decrease of EUR 86 million (–52 %). This was primarily due to the risk provision result in lending business (EUR –63 million). Valuations from securities and investments came to EUR –15 million.

The favourable performance of this item was mainly influenced by the risk provision result in lending business, which was down substantially on the previous year, recording a decrease of EUR 103 million (–62 %). While the moderate increase in risk provisions required resulted predominantly from individual NPL cases, during the financial year it was also due in particular to the utilisation of specific risk provisions recognised in prior periods in connection with measures to optimise the portfolio in the Maritime Industries sector department. In terms of risk provisions for the 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 calculation of portfolio loan loss provisions uses an expected loss concept, under which the risk provisions are based on the loss expected within one year for all loans for which no specific loan loss provisions have been recognised. The bank covered all recognisable risks with commensurate risk provisions in line with its conservative approach to risk assessment.

Valuations from securities and investments primarily comprised write-downs to the bank's fund investments (EUR 18 million). The item also included income from write-ups to securities held as fixed assets (EUR 2 million).

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

Taxes on income

Following the conclusion of a profit transfer agreement between KfW Beteiligungsholding GmbH and KfW IPEX-Bank in 2016 in order to form a CIT fiscal unity, taxes on income primarily comprise income tax expense for the branch office in London (EUR 2 million). This is offset by a trade tax refund in the same amount in relation to previous financial years for the Frankfurt headquarters.

Net income for the year

The annual profit for the 2017 financial year amounted to EUR 113 million. In view of the obligation arising under the profit transfer agreement to transfer its entire profit to KfW Beteiligungsholding GmbH, KfW IPEX-Bank reported net income of EUR 0 million for the reporting year.

Net assets

Volume of lending for own account

The volume of lending for own account (EUR 30.7 billion) includes on-balance sheet loans and advances to banks and customers as well as financial guarantees and irrevocable loan commitments. The volume decreased by EUR 4.2 billion (–12%) year-on-year. This is attributable firstly to volume effects, which arose from the sale of exposures as part of measures to optimise the portfolio as well as from the subdued development in new business over the past financial year. Secondly, the depreciation of the US dollar (–14 %) in comparison to the 2016 year-end rate had a negative impact on the development of the lending volume. In 2017 the Power, Renewables and Water, Aviation and Rail, and Maritime Industries sector departments once again accounted for the largest overall share of on-balance sheet lending volume, with a total of EUR 13.8 billion (60 %). In the reporting year, KfW IPEX-Bank issued new commitments in the Export and Project Finance business sector totalling EUR 12.1 billion in its original lending business. Of this amount, EUR 8.3 billion related to market business, while EUR 3.8 billion related to trust business administered by the bank on behalf of and for the account of KfW. New business was therefore EUR 2.3 billion (–16 %) lower than the level of the previous year. Furthermore, the bank granted new commitments of EUR 1.7 billion for bank refinancing under the CIRR ship financing scheme, within the framework of an agency agreement with KfW.

Loans for own account by sector department

Sector department	31 Dec. 2017	31 Dec. 2016	Change
	EUR in millions	**EUR in millions**	**EUR in millions**
Power, Renewables and Water	5,060	5,370	–310
Aviation and Rail	4,853	5,587	–734
Maritime Industries	3,933	5,142	–1,209
Industries and Services	3,020	2,890	130
Basic Industries	2,691	3,260	–569
Transport and Social Infrastructure (PPP)	2,089	2,149	–60
Financial Institutions, Trade and Commodity Finance	1,292	2,248	–956
Equity Portfolio	22	31	–9
	22,960	**26,677**	**–3,717**
Other positions[1]	–102	–60	–42
Loans and advances to banks and customers	**22,858**	**26,617**	**–3,759**
Financial guarantees[2]	**1,554**	**1,640**	**–86**
Irrevocable loan commitments[2]	**6,325**	**6,644**	**–319**
Total	**30,737**	**34,901**	**–4,164**

[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
Bonds and other fixed-income securities (EUR 2.1 billion) primarily comprise the portfolio of high-quality and highly liquid assets held in order to fulfil the regulatory liquidity coverage ratio (LCR). This consists solely of KfW securities (EUR 2.0 billion), which are assigned to current assets. A further security (EUR 0.1 billion) is assigned to fixed assets.

Assets held in trust (EUR 234 million), which are recognised in the balance sheet, relate to lending business that KfW IPEX-Bank administers on a trust basis for third parties. These assets fall under the bank's civil-law ownership.

Other assets (EUR 120 million) primarily include the balancing item for the foreign currency translation of derivative hedges (EUR 108 million).

The carrying amount of equity investments (EUR 69 million) is mainly attributable to the bank's fund investments. The decrease of EUR 27 million (–28%) resulted predominantly from the depreciation of the US dollar as well as from write-downs (EUR 18 million).

Financial position

Funding

KfW IPEX-Bank covers its financing requirements almost exclusively through borrowings from KfW, which provides it with the necessary funds at market-based terms on the basis of a refinancing agreement. Funding is carried out using money market and capital market products. The bank covers its medium and long-term funding requirements mostly through promissory note loans and the issuance of registered Public Pfandbriefe, the latter being acquired exclusively by KfW. Funding is also obtained in the form of call money and term borrowings. The bank funds itself in the currencies and for the tenors required for refinancing its lending activities.

Liabilities to banks amounted to EUR 20.0 billion and were thus almost wholly attributable to borrowings from KfW (EUR 19.8 billion).

Liabilities to customers (EUR 232 million) resulted primarily from deposit business with third parties in the form of term borrowings as well as cash collateral acquired in connection with the lending business.

Structure and development of funding

	31 Dec. 2017 EUR in millions	31 Dec. 2016 EUR in millions	Change EUR in millions
Liabilities to banks			
Current account (KfW)	5	16	–11
Call money and term borrowings (KfW)	1,664	3,112	–1,448
Promissory note loans and other long-term borrowings (KfW)	18,080	20,314	–2,234
Interest payable (KfW)	89	96	–7
KfW total	**19,838**	**23,538**	**–3,700**
Other	119	137	–18
	19,957	**23,675**	**–3,718**
Liabilities to customers			
Other creditors[1)]	232	372	–140
Total	**20,189**	**24,047**	**–3,858**

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

KfW IPEX-Bank secures its liquidity and therefore ensures it is sufficiently solvent at all times by means of the refinancing agreement with KfW described above and a portfolio of high-quality and highly liquid bonds. It also holds liquid assets in the form of short-term investments and has an undrawn credit facility with KfW (EUR 0.5 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. 2017 EUR in millions	31 Dec. 2016 EUR in millions	Change EUR in millions
Equity	3,855	3,475	380
Subscribed capital	*2,100*	*2,100*	*0*
Capital reserve	*1,330*	*950*	*380*
Retained earnings	*425*	*425*	*0*
Subordinated liabilities	417	949	–532
Fund for general banking risks as per Section 340g of the German Commercial Code	324	368	–44
Total	**4,596**	**4,792**	**–196**

The composition of equity shown in the balance sheet is unchanged compared with the previous year. Subscribed capital consists of share capital and a silent partner contribution for which there is no contractual maturity date. The increase in the capital reserve of EUR 380 million consisted of a contribution by KfW Beteiligungsholding GmbH as the sole shareholder of KfW IPEX-Bank and a partial reinvestment, to the extent permitted under tax legislation, of the profits transferred to the controlling company in 2016 under the profit transfer agreement. The bank's capitalisation is reviewed as part of a capital planning calculation performed twice annually and adjusted where necessary (see Risk Report for further details).

In accordance with the statutory termination provisions set out in Section 489 of the German Civil Code, and after receiving authorisation from the German Federal Financial Supervisory Authority, the bank terminated a USD 500 million tranche of the subordinated loan granted by KfW prematurely, paying it back on 29 September 2017. The early redemption took place as part of measures to optimise the capital structure.

In light of regulatory capital requirements, the bank makes appropriations to a fund for general banking risks in accordance with Section 340g of the German Commercial Code with the aim of strengthening its tier 1 capital and stabilising solvency ratios against fluctuations in exchange rates. The depreciation of the US dollar (–14%) compared to the previous year-end led to withdrawals totalling EUR 44 million during the past financial year. These are reported in a separate item on the income statement and relate to the bank's foreign exchange results.

Development of other material items of liabilities and equity

Provisions (EUR 235 million) rose by EUR 51 million (+27%) compared to 31 December 2016. Provisions for pensions and similar commitments were up EUR 24 million (+19%) year-on-year. This was due predominantly to the continued decline, caused by the sustained period of low interest rates, in the average market interest rate used to discount provisions with a residual life of more than one year in accordance with Section 253 (2) of the German Commercial Code. This item also included provisions for contingent losses (EUR 22 million) recognised in 2017 for derivatives concluded in connection with the lending business. Furthermore, KfW IPEX-Bank recognised an appropriate provision (EUR 11 million) to cover any potential repayment obligations arising from the rulings by the German Federal Court of Justice (*Bundesgerichthof – BGH*) on 4 July 2017, which held that boilerplate clauses contained in commercial loan agreements concluded by banks providing for the payment of processing fees are invalid.

Other liabilities (EUR 117 million) were up EUR 8 million (+8%) year-on-year. These primarily consisted of the profit transfer liability payable to KfW Beteiligungsholding GmbH (EUR 113 million).

Off-balance sheet financial instruments

KfW IPEX-Bank performs derivative transactions primarily in order to hedge interest and exchange rate risks. It had derivatives with a total nominal volume of EUR 28.2 billion on its books as of 31 December 2017, and the vast majority of this derivatives volume – EUR 23.9 billion (85%) – related to interest rate swaps. Apart from this, the bank mainly uses foreign exchange (FX) swaps (EUR 2.9 billion) and cross-currency swaps (EUR 1.2 billion). The derivatives volume increased by EUR 1.9 billion (+7%) year-on-year.

Summary

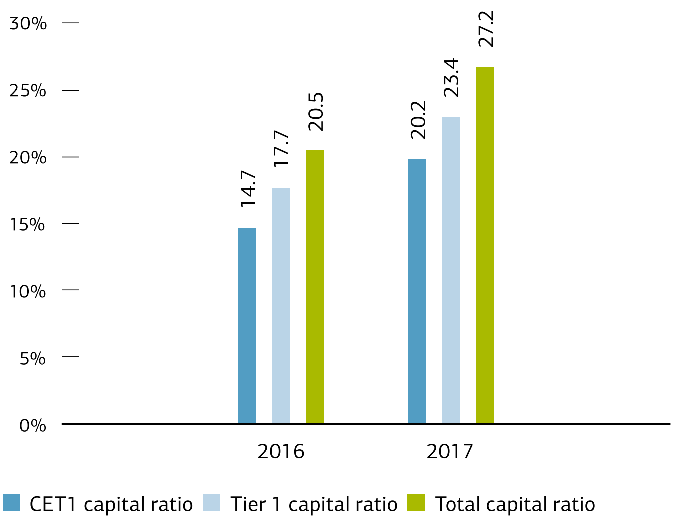
KfW IPEX-Bank generated a strong profit from operating activities before taxes of EUR 113 million in 2017, slightly exceeding the previous year's result. During the past financial year, KfW IPEX-Bank operated in a market environment characterised by high liquidity and increasing competition. While operating income before risk provisions and valuations did not quite reach the result achieved for the previous year, the satisfactory result from risk provisions and valuations made a significant contribution to the strong overall result. During the past financial year, the risk provision was affected by the utilisation of risk provisions in connection with portfolio measures (Maritime Industries) recognised by the bank in previous periods as part of the consistent application of its ongoing conservative risk policy. The annual profit was transferred to KfW Beteiligungsholding GmbH within the context of the CIT fiscal unity subject to approval of the annual financial statements by the general shareholders' meeting in March 2018.

Risk Report

Overview of key indicators

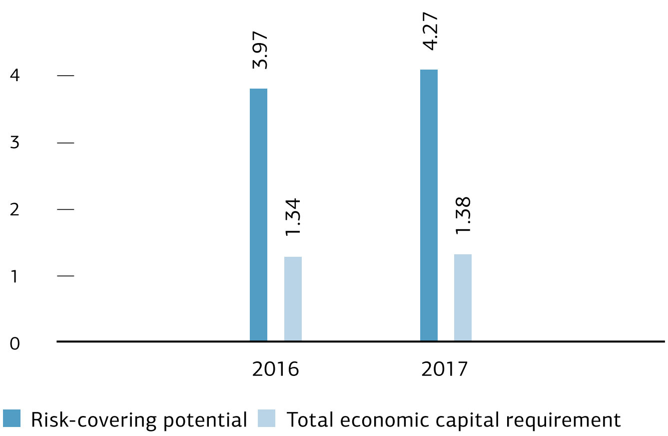
Risk reporting is performed in accordance with KfW IPEX-Bank GmbH's internal risk management system. Key risk indicators are presented below:

Regulatory capital ratios: significant improvement



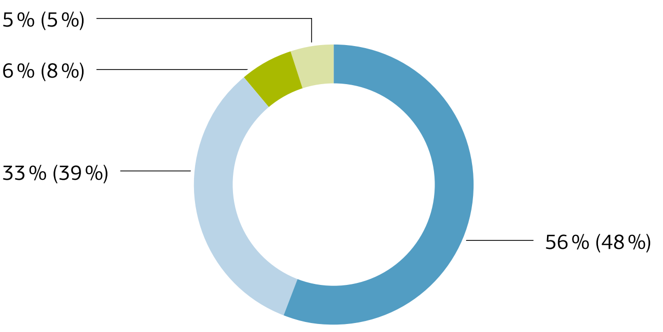
The capital contribution of EUR 300 million, reinvestment of the majority of the 2016 profit transferred and reduced regulatory capital requirements for credit risk constituted key drivers behind rising regulatory capital ratios.

Economic risk-bearing capacity: improvement

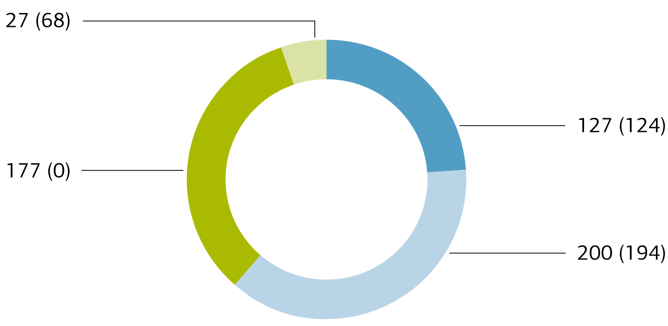


Excess cover is increasing. Risk-bearing capacity comfortably meets the 99.96 % solvency target. Capital adequacy improved year-on-year, due in particular to the aforementioned capital contribution. The economic capital requirement increased slightly due to the first-time inclusion of basis spread risk as well as enhancements to the measurement approach for operational risks.

Credit risk: improved rating structure
2017 (2016), Breakdown of net exposure



Market price risks: foreign exchange risks prevail
2017 (2016), ECAP EUR in millions



The proportion of non-investment grade exposures fell to 33 %, primarily due to portfolio reductions, while the proportion in investment grade class increased correspondingly to 56 %. The proportion of watch list exposures decreased, primarily due to portfolio reductions and transfers to the NPL portfolio. Risk provisions have reduced. This was primarily due to greater utilisation of risk provisions in the Maritime Industries sector department due to ship disposals, as well as a generally lower requirement for additions to provisions.

Within market price risk, the majority of economic capital is still allocated to foreign exchange risk. The ECAP requirement rose overall due to the recent incorporation of 'basis spread risk' as a risk type in risk measurement procedures. The ECAP requirement for credit spread risk fell due to enhancements in methodology.

Significant developments and outlook

Following a slight improvement in the average rating during 2017, KfW IPEX-Bank's portfolio is in a stable position heading into 2018. Given current geopolitical and global economic challenges, the risk situation in individual sectors continues to be closely monitored, including with regard to ongoing uncertainties in commodity markets and emerging countries.

For a second year, the oil price continued to recover over the course of 2017 (+18 % to approximately USD 65/barrel), and seems to be remaining in a range between USD 50 and USD 70. Subsequent developments will depend largely on the disciplined implementation of the extension to concerted production restrictions agreed at the OPEC meeting in November 2017 and the further development of fracking volumes in the USA. Russian production cuts also made a considerable contribution to a more balanced oil market.

The offshore oil portfolio is subject to risk due to drastic investment cuts made by oil companies. Further reductions in expenses for exploration activities and production are expected in the offshore oil segment in 2018. Oil companies have noticeably shifted their investment focus to the onshore segment (both conventional and unconventional). Even if oil companies regain their willingness to invest in the offshore oil segment, structural excess supply will persist, such that utilisation and rates for offshore service companies will remain under pressure. As expected, KfW IPEX-Bank has seen a rating migration to riskier rating classes in the offshore oil portfolio. The proportion of watch list and NPL exposures rose. The earnings basis in the remaining portfolio is predominantly stable, due to long-term charters and customers with high credit ratings, combined with gradually reducing residual charter terms. The segment continues to be closely monitored and managed.

High import pressure on the European steel sector is likely to continue, due to increasing compartmentalisation of other markets and in view of global excess steel capacity. The global steel industry continues to face pressure due to worldwide over-capacity. Production capacity in China remains particularly high, despite isolated shutdowns of some steel factories. This is not expected to have any major impact on the relevant KfW IPEX-Bank portfolio, as ratings for individual counterparties have already been downgraded in recent years.

In merchant shipping, structural issues have made a substantial contribution to the duration and gravity of the crisis, including in particular the direct and indirect funding of Asian shipyards. New orders for shipping companies, which are seeking to improve their cost basis relative to competitors by means of more efficient tonnage, have led to excess capacity and falling rates. In the container shipping sub-segment, the major liner shipping companies are attempting to address this issue through cost cutting, cooperation agreements and takeovers. Furthermore, there is considerable excess capacity in the various sub-segments of the merchant shipping sector. Hopes for improved market conditions in 2018/2019 are based on the now lower order books, decreased lay-up rates and positive transport growth rates in all segments of merchant shipping. Steps taken by KfW IPEX-Bank to protect its portfolio against the effects of the protracted crisis in merchant shipping are already at an advanced stage. Planned redemptions, unscheduled repayments and loan sales allowed the portfolio to be substantially reduced once again versus the previous year, and the limited partnership portfolio, ship funds based on limited partnerships (*Kommanditgesellschaft – KG*), has now been almost completely unwound. The merchant shipping portfolio will continue to be closely monitored and managed.

In light of the recovering global economy, and in spite of continuing geopolitical uncertainties, the overall rating trend for the portfolio as a whole is expected to be stable in 2018.

As in previous years, KfW IPEX-Bank continued to systematically develop its processes and instruments for risk management and control in the 2017 financial year, giving due consideration to current banking supervisory requirements. In particular, this involved activities to implement the 5th amendment of the German Minimum Requirements for Risk Management (*Mindestanforderungen an das Risikomanagement – MaRisk*), the separation at departmental level of enhancements to and validation of credit risk models, the measurement and management of basis spread risks and of operational risks, the comprehensive revision of the bank's recovery plan and the operational implementation of shadow banking limits.

General conditions of risk management and control

KfW IPEX-Bank undertakes credit risks in its business activities in a deliberate and controlled manner in order to generate adequate 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. All significant components of risk-adjusted performance management at the bank are reviewed and developed on an ongoing basis. 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 chiefly 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 enable the bank to address the challenges associated with the megatrends of climate change and the environment as well as 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 risks
- Market price risks (foreign exchange risk, interest rate risk, basis spread risk)
- Operational risks
- Liquidity risks
- Concentration risks
- Regulatory risks

Credit risks (particularly counterparty default risks and migration risks) are 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 basis spread risk) and operational risks. 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. In accordance with the provisions of the German Minimum Requirements for Risk Management (*Mindestanforderungen an das Risikomanagement – MaRisk*), this risk strategy addresses all business activities and risk types that are of significance to the bank. 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 bank's managers demonstrate an appropriate risk culture on a top-down basis. A clear definition of employees' responsibilities, transparent and open communication and appropriate incentive structures underpin the bank's sound risk culture.

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. On 1 April 2017, the structure of the bank's risk functions was reorganised, with Risk Controlling splitting away from the former Risk Management department to form a separate department. In addition, the Collateral Management team moved to the Special Asset Group due to synergies with this department, while activities performed by the Credit Risk and Credit Analysis teams were combined in two new Credit Risk Management departments. As of 31 December 2017, KfW IPEX-Bank's risk function comprises the following departments: Credit Risk Management I and 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. This means that the separation of functions between the front office and back office as called for in the German Minimum Requirements for Risk Management is ensured at all levels of the organisational structure.

The two departments Credit Risk Management I and II are each responsible for approval and analysis. Approval activities 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. Analysis responsibilities include 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 management and risk control functions and activities to KfW. These include validation and development of the rating methodology for counterparty 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 ensures 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 effectiveness and adequacy of the risk management system independently of processes and reports directly to the Management Board. It thus makes 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

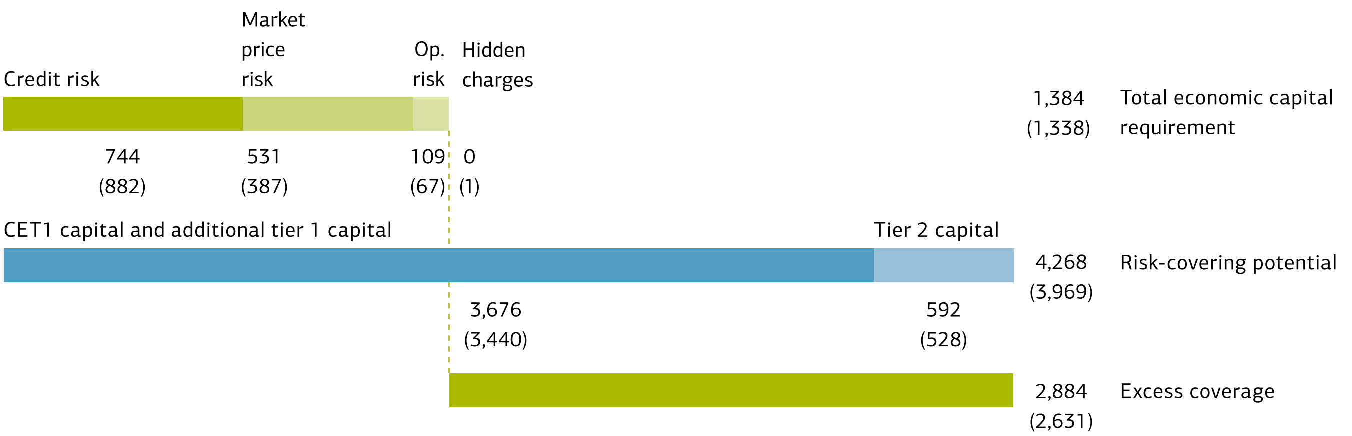
A key aspect of KfW IPEX-Bank's risk-bearing capacity plan (internal capital adequacy assessment process, or ICAAP) is the fact that economic and regulatory provisions concerning risk-bearing capacity represent overarching objectives that are equally important. In concrete terms, this means that all risk monitoring and management activities must ensure that the bank meets an economic solvency target of 99.96 % and fulfils the regulatory capital requirements for the CET 1 capital ratio, the tier 1 capital ratio and the total capital ratio. This approach combines capital management measures that make good economic sense with the need to ensure that regulatory capital requirements are met. KfW IPEX-Bank uses a single definition for risk-covering potential in order to integrate these two perspectives. In both cases, the bank's risk-covering potential is based on regulatory own funds in accordance with Articles 25–91 of Regulation (EU) Nº 575/2013 (CRR).

As of 31 December 2017, the risk-covering potential was EUR 4,268 million, consisting of:

EUR 3,177 million in CET 1 capital,
EUR 500 million in additional tier 1 capital, and
EUR 592 million in tier 2 capital.

The bank's economic risk-bearing capacity comfortably meets the 99.96 % solvency target. As of 31 December 2017, excess risk-covering potential above total capital requirements increased from EUR 2,631 million in 2016 to EUR 2,884 million. This rise was largely due to the increase in risk-covering potential, which primarily resulted from the capital contribution of EUR 300 million in April 2017 as well as reinvestment of the majority of the 2016 profit transferred to KfW Beteiligungsholding GmbH in June 2017. In addition, the capital required to cover credit risk – as the bank's most relevant risk type – fell from EUR 882 million in the previous year to EUR 744 million. As well as the modest level of new business in 2017 and the 12 % devaluation in the USD, secondary market sales also contributed to this. By contrast, the capital requirement for market price risks increased, essentially due to the first-time inclusion of basis spread risk as well as a rise in operational risk caused by changes in methodology.

Economic risk-bearing capacity as of 31 Dec. 2017
EUR in millions



In brackets: figures as of 31 Dec. 2016

The regulatory capital ratios for KfW IPEX-Bank are much higher than in the previous year, primarily as a result of increased own funds but also due to a reduction in regulatory capital requirements for credit risk. As of 31 December 2017, the total capital ratio stood at 27.2 % (previous year: 20.5 %), the tier 1 capital ratio at 23.4 % (previous year: 17.7 %) and the CET1 capital ratio at 20.2 % (previous year: 14.7 %). All regulatory capital requirements were comfortably met at all times in 2017.

The bank's forward-looking approach is a further prominent feature of how it manages its capital adequacy process. This entails assessing the absorption potential of KfW IPEX-Bank's reserves – and therefore its ability to act – when specific economic (stress) scenarios arise. A traffic light system with thresholds for economic and regulatory risk-bearing capacity has been established as part of this. When critical developments arise, this system indicates that operational or strategic control measures need to be taken.

Once a quarter, KfW IPEX-Bank evaluates a forecast scenario (expected scenario), a downturn scenario (slight economic downturn) and a stress scenario (severe recession) and their impact on its economic and regulatory risk-bearing capacity. A further control variable used to avoid excessive indebtedness at KfW IPEX-Bank is the leverage ratio, which is an integral part of the capital adequacy process. The leverage ratio is also examined using additional forward-looking approaches. Compliance with thresholds set internally by the bank is monitored quarterly.

In addition to the risk-bearing capacity plan, a capital planning process is carried out regularly to safeguard the bank's risk-bearing capacity in the medium term. The capital planning process uses scenario-based projections of economic and regulatory risk-bearing capacity and the leverage ratio spanning several years to identify potential capital shortages at an early stage. This information is then used to recommend measures the bank should take to strengthen its capital or reduce its risks or balance sheet where appropriate. This process takes into account changes in strategic targets, business activities and the economic environment. As well as a base case, the process also evaluates economic and regulatory risk-bearing capacity and the leverage ratio in a stress case.

Stress tests and test scenarios

In addition to economic scenarios used in the capital adequacy process, further stress tests are performed on a regular basis which take concentration risks into account and are used to examine the resilience of KfW IPEX-Bank's risk-bearing capacity. In addition to 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 2017, these tests focused on scenarios involving US protectionism, the Qatar crisis, the conflict in Korea and high debt levels in Chinese provinces. Inverse stress tests are also used to show how KfW IPEX-Bank's risk-bearing capacity could be pushed to its limits in unfavourable circumstances. 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 simulated in 2017.

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. Counterparty default risk is the most significant category of credit 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 and special financing risk. Migration risks (or credit rating risks) also have a significant effect on credit risk exposure. These are included in the above mentioned stress tests, among other parts of the bank's risk management activities.

Measurement of counterparty default risk

Counterparty default risk is assessed at the level of the individual counterparty or the individual transaction, based on internal rating processes. In this case, the bank uses the advanced internal ratings-based approach (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[1)]:

- 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 and follow a uniform, consistent model architecture. 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, the risk assessment is mainly determined by the cash flows generated by the financed asset. 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.

Comparability of individual rating processes is guaranteed by depicting the probabilities of default on a group-wide, uniform master scale. The master scale consists of 20 different sub-classes which can be grouped together into 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 detailed organisational instructions for each rating process, 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.

Regular validation and further development of the rating processes ensures that it is possible to respond promptly to changing general conditions. The objective is to 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[2)], 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, deductions 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. A reliable valuation of the collateral position is therefore guaranteed at the level of individual collateral items.

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

[1)] 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.

[2)] 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.

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

A risk report is prepared on a monthly basis to inform the Management Board about the current risk situation. Risk reports prepared on quarterly reporting dates are much more extensive than monthly reports and describe the risk situation in more detail. Major risk parameters are also monitored continuously.

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 primarily to limit default risks. This involves monitoring individual exposures and concentration risks. Limits are based on a limit anchor value and are set per group of connected clients and per country, as well as 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 by way of 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 the sector 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 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 restructuring or other remedial action is considered. If restructuring or other remedial action is not possible or not worthwhile 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 commitments subject to intensified loan management. This ensures that specialists are involved at an early stage in order to guarantee comprehensive and professional problem loan management.

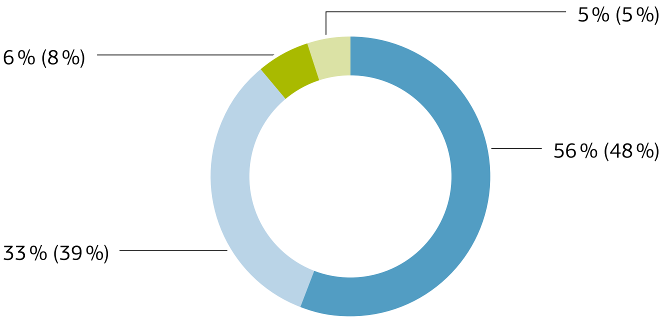
Counterparty Risk Committee

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)]

2017 (2016), Total net exposure: EUR 6.6 billion



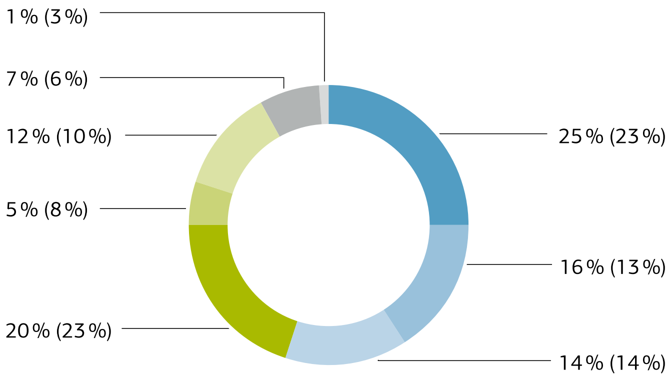
Investment grade Non-investment grade
Watch list Non-performing loans

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

The credit rating structure of the performing portfolio has changed compared with the previous year, due to an overall reduction in the portfolio resulting from the modest level of new business, significant USD devaluation and secondary market sales. Net exposure is EUR 6.6 billion. The proportion of non-investment grade exposures fell to 33 %, primarily due to portfolio reductions, while the proportion in investment grade class increased correspondingly to 56 %. The proportion of watch list loans reduced to 6 %, primarily due to portfolio reductions and transfers to the NPL portfolio. The proportion of NPL loans remained stable at 5 % of net exposure; in particular, ship disposals in the Maritime Industries sector department compensated for the increased number of NPLs mentioned above. The average probability of default of the performing portfolio fell from 1.41 % to 1.25 % in financial year 2017.

Economic capital requirements by sector department

2017 (2016), Total ECAP: EUR 744 million

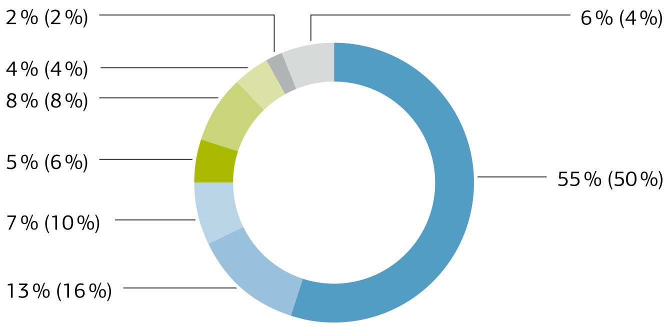


Power, Renewables and Water Transport and Social Infrastructure (PPP) Basic Industries Maritime Industries Financial Institutions, Trade and Commodity Finance Aviation and Rail Industries and Services Equity Portfolio

The above overview shows the diversification of the portfolio across the bank's sector departments. The largest shares of economic capital are allocated to the sector departments of Power, Renewables and Water, and Maritime Industries, with 25 % and 20 % respectively.

Economic capital requirements by region

2017 (2016), Total ECAP: EUR 744 million



Europe (incl. Caucasus, excl. Germany) Germany Latin America
North America Asia North Africa/Middle East
Sub-Sahara Africa Australia and Oceania

In regional terms, business is focused on Europe, including Germany, where 68 % of economic capital is allocated to counterparty default risk.

Risk provisions for counterparty default risks

All identifiable loan default risks in the lending business are adequately taken into account by creating risk provisions. Specific loan loss provisions and other provisions for the lending business decreased year-on-year to EUR 236 million as of 31 December 2017. This was primarily due to greater utilisation of risk provisions in the Maritime Industries sector department as a result of ship disposals, as well as a smaller increase in required additions to provisions overall.

The portfolio of specific loan loss provisions and lending business provisions for disbursed loans, financial guarantees and irrevocable loan commitments, structured according to sector department, was as follows as of 31 December 2017:

Specific loan loss provisions

Sector department	31 Dec. 2017 EUR in millions	31 Dec. 2016 EUR in millions	Change EUR in millions
Maritime Industries	123	196	–73
Power, Renewables and Water	43	36	7
Financial Institutions, Trade and Commodity Finance	29	22	7
Transport and Social Infrastructure (PPP)	16	18	–2
Basic Industries	14	11	3
Aviation and Rail	6	7	–1
Industries and Services	5	6	–1
Equity Portfolio	0	0	0
Total	**236**	**296**	**–60**

Portfolio loan loss provisions as of 31 December 2017 by sector department were as follows:

Portfolio loan loss provisions

Sector department	31 Dec. 2017 EUR in millions	31 Dec. 2016 EUR in millions	Change EUR in millions
Maritime Industries	25	37	–12
Power, Renewables and Water	17	20	–3
Aviation and Rail	12	13	–1
Transport and Social Infrastructure (PPP)	10	11	–1
Basic Industries	10	11	–1
Financial Institutions, Trade and Commodity Finance	6	12	–6
Industries and Services	3	4	–1
Equity Portfolio	1	1	0
Other	1	1	0
Total	**85**	**110**	**–25**

Write-downs on equity investments totalling EUR 17 million were also required during the financial year for solvency reasons. There were no write-downs on other securities in the investment portfolio or securities held as current assets for solvency reasons in 2017. Provisions for contingent losses were recognised in the amount of EUR 22 million for hedging derivatives concluded in connection with exposures for which provisions have been recognised in the lending business.

Market price and liquidity risks

As a result of the business policy decision not to engage in proprietary trading and not to generate short-term gains through trading, KfW IPEX-Bank is a non-trading book institution. The risk strategy guidelines for trading transactions are formulated so that these transactions do not fall under the definition of Article 4 (1) Nº 86 of the CRR. The portfolios have a medium to long-term investment horizon. Market price risks are generally managed so as to ensure that they play as subordinate a role as possible at KfW IPEX-Bank from an overall risk perspective.

Market price risks of relevance to the bank are interest rate risk, foreign exchange risk, credit spread risk and basis spread risk (calculated since 31 August 2017). Interest rate risk is defined as the risk of loss (in value) caused by a change in the interest structure adverse to KfW IPEX-Bank. Foreign exchange risk results from the risk of loss (in value) caused by a change in exchange rates adverse to KfW IPEX-Bank. Credit spread risk is defined as the risk of loss (in value) arising from credit spread changes adverse to KfW IPEX-Bank. At KfW IPEX-Bank, credit spread risk plays a role for securities on the assets side held for liquidity management purposes as well as for lending in the form of securities. The risk of issuer default is not allocated to credit spread risk; rather, it falls under counterparty default risk. Basis spread risk essentially consists of two components: Tenor basis risks are defined as changes in present value and income statement effects from relevant products (such as swaps or floating-rate bonds) arising from changes to differences in swap rates with the same maturities, but differing variable interest (e.g. 3m vs 6m Euribor) within one currency. Cross-currency basis risks are defined as changes in present value and income statement effects arising from changes in the spread premium when swapping two variable interest rates between different currency areas, including principal swaps.

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.

Interest rate risk and foreign exchange risk

In line with the business and risk strategy of KfW IPEX-Bank, interest rate risk is generally managed such that it plays a subordinate role from an overall risk perspective, given that the bank has a largely closed interest rate position. The general rule for the entire interest book is to avoid interest rate risk. An open interest rate position arises for KfW IPEX-Bank as the residual portion of positions that cannot be hedged effectively in relation to provisions for pensions in the EUR long-term book and from the variable-interest EUR and USD short-term book. Interest rate risk is measured on a monthly basis and monitored and managed by means of a risk budget.

The general rule for foreign exchange risk is that foreign currency positions may not be entered into for the purpose of generating income from exchange rate fluctuations. Any individual foreign exchange risks arising indirectly in the course of business are closed, wherever this is possible and economically viable, through refinancing or hedging. Foreign currency positions resulting from margins and fees recorded on the balance sheet are closed out promptly by the bank's Treasury by the end of the month. In addition, in order to stabilise scheduled USD income, forward transactions are concluded when the USD/EUR exchange rate reaches specific thresholds. Any residual risks are managed at the macro level. In order to stabilise fluctuations in the regulatory capital requirement caused by changes in exchange rates, a limited part of the USD loan book is financed through a fund denominated in US dollars set up to cover general banking risks as per Section 340g of the German Commercial Code. This is carried out to only a limited extent for the purpose of stabilising the regulatory risk-bearing capacity, and not to generate short-term income from exchange rate fluctuations. The level of foreign exchange risk is measured on a regular basis and restricted by means of a risk budget.

Interest rate risk and foreign exchange risk are measured and controlled on a net present value basis using the economic capital concept. In this process, a present value loss is calculated that is highly unlikely to be exceeded within one year across the entire portfolio of KfW IPEX-Bank in the event of possible changes in the yield curve or foreign exchange rates. The economic capital requirement both for interest rate risk and foreign exchange risk is composed of a capital buffer for present value losses and a risk value. The capital buffer for present value losses is for a present value loss that is accepted by the bank's management and may occur within one year. Furthermore, any losses in value that may occur when a position is closed are measured as value at risk (VaR) with a holding period of two months and a confidence level of 99.96%. Diversification effects between interest rate and foreign exchange risks that would reduce overall risk are not taken into account. Since two separate models are used, which are both based on a variance/covariance approach, a conservative assumption is made that there is a completely positive correlation between both risks.

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 the interest rate risk, and the interest rate sensitivity as of 31 December 2017. It also shows the reduction in present value for the regulatory interest rate shock scenario as specified in Circular 11/2011 issued by the German Federal Financial Supervisory Authority (BaFin) in absolute terms and as a proportion of regulatory own funds:

Currency

	EUR	USD	GBP	CHF	JPY	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	3,380.5	512.3	64.7	0.0	0.2	56.7	4,014.3
Economic capital requirement for interest rate risk (99.96%/ two-month holding period)	–	–	–	–	–	–	127.3
Interest rate sensitivity (change in present value given an increase in the interest rate by one basis point)	0.279	–0.060	–0.025	0.0	–0.001	–0.017	0.177
Reduction in present value given regulatory interest rate shock (+200/–200 bp)	–	–	–	–	–	–	90.5
As a proportion of regulatory own funds[1)]	–	–	–	–	–	–	0.02

[1)] Own funds as of 31 Dec. 2017: EUR 4.268,0 million

The indicators of interest rate risk clearly show that the interest rate risk position of KfW IPEX-Bank is comparatively small. Like interest rate risk, foreign exchange risk plays a subordinate role from an overall risk perspective. The following table provides an overview of the economic capital requirement and regulatory capital requirements for foreign exchange risk as of 31 December 2017.

Economic capital requirement for foreign exchange risk	Regulatory capital requirements for foreign exchange risk
EUR in millions	EUR in millions
199.9	5.1

Credit spread risk in the securities portfolio

All positions in the securities portfolio of KfW IPEX-Bank are subject to a buy-and-hold approach. The bank does not engage in proprietary trading in order to generate short-term earnings.

The securities portfolio is composed of the liquidity portfolio, the HQLA (High Quality Liquid Assets) portfolio and other securities (in particular lending in the form of securities).

The economic capital concept is used to measure credit spread risk in the securities portfolio. Accordingly, the economic capital requirement for the credit spread risk is measured as the value at risk (VaR) based on a historical simulation. In this process, a loss in the value of the securities portfolio is calculated that is 99.96% probable not to be exceeded within one year in the event of possible changes in credit spreads. From 31 December 2017, a new risk model was used to calculate credit spread risk. Whereas the previous model determined value at risk using credit spread time series at an individual transaction level, the new model determines the value by using segment-specific spread curves. The economic capital requirement for the credit spread risk as of 31 December 2017 was EUR 27.4 million.

Basis spread risk

The new risk type 'basis spread risk' was included in risk management and reporting for the first time on 31 August 2017. Basis spread risk arises for KfW IPEX-Bank as a result of it concluding variable transactions with differing fixed-interest periods (tenor basis spread risk) and due to its business activities in foreign currencies (cross-currency basis spread risk). For KfW IPEX-Bank, cross-currency basis spread risk predominantly arises in relation to investments and funding in foreign currencies with differing fixed terms on the asset and liability sides. The resulting basis spread risk is acceptable within the stipulated ECAP budget. The bank does not seek to generate short-term income from the basis spread risk position.

The economic capital concept is used to measure basis spread risk. The economic capital requirement is determined using a parametric value-at-risk approach. In this process, a present value loss is calculated that is highly probable (99.96 %) not to be exceeded within one year across the entire portfolio of KfW IPEX-Bank in the event of possible changes in the basis spread. The economic capital requirement for basis spread risk as of 31 December 2017 was EUR 176.5 million.

Institutional liquidity risk

Institutional liquidity risk (or solvency risk) is the risk of not being able to settle payment obligations at all, on time and/or to the required extent. KfW IPEX-Bank's solvency risk is considerably limited by an existing refinancing agreement with KfW. The refinancing agreement guarantees KfW IPEX-Bank access to liquidity through KfW at any time (at market conditions). KfW IPEX-Bank also has marketable securities as well as access to credit lines with KfW in order to ensure that it is sufficiently capable of meeting its payment obligations at all times in accordance with Section 11 of the German Banking Act in conjunction with the German Liquidity Regulation (*Liquiditätsverordnung*). KfW IPEX-Bank's liquidity requirements are taken into account at group level in KfW's strategic refinancing planning. 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 risk ratio in accordance with the German Liquidity Regulation. Furthermore, KfW IPEX-Bank calculates the liquidity coverage ratio, 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. In addition, a daily forecast is calculated for the liquidity ratio (pursuant to the German Liquidity Regulation) of the first maturity band (remaining terms up to 1 month) in order to keep the ratio within a specified target range. 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 and funding risk

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.

At KfW IPEX-Bank, market liquidity risk and funding risk are 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. This definition includes legal risks.

KfW IPEX-Bank outsources key elements of funding, finance, financial and risk controlling, IT and reporting to KfW, with outsourcing risk (or service provider risk) being subsumed under operational risks. 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 monitoring measures that are process-dependent, measures that are performed alongside processes, and those that are independent of processes. The main points of contact in the relevant departments are responsible for specialised process-dependent monitoring, while the outsourcing officer or sourcing managers are responsible for formal aspects of these monitoring activities on a centralised basis. The bank's Compliance team provides centralised support for monitoring measures performed alongside processes. Internal Auditing and the bank's external auditor carry out process-independent monitoring.

KfW IPEX-Bank mitigates legal risks as far as possible by involving its internal Legal Affairs department at an early stage and by collaborating closely with external legal consultants, particularly in the case of commitments abroad.

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;
- Inclusion of the Internal Auditing department as an independent control mechanism.

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

Operational risks are systematically analysed and assessed in 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 continuous recording and measurement of 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. This means weaknesses can be identified in business processes and operational risks can be quantified. The database also enables evaluation and electronic archiving of loss data.

Measures derived from identified operational risk events 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.

In addition, from 31 December 2017 the method for determining economic capital for operational risks was converted to a quarterly calculation using regulatory capital, determined using the standard approach, and a scaling factor, which is derived from the Group's ECAP model. The scaling factor allows the different solvency levels of 99.9 % (regulatory capital) and 99.96 % (economic capital) to be taken into account, and is determined from the model results for KfW IPEX-Bank's stand-alone inclusive scenarios.

Risk concentrations

Concentration risks are principally of importance to KfW IPEX-Bank. The 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 individual sectors, countries or borrower units. KfW IPEX-Bank actively restricts 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 and Rail).

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. Resulting foreign exchange risks are avoided as far as possible and appropriate 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 risk concentrations in detail and monitors them on an ongoing basis. Risk concentrations are also included in stress tests.

Regulatory risk

Regulatory risks for KfW IPEX-Bank arise primarily through more stringent requirements for minimum capital ratios and 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 (e.g. reporting system and recovery plan) and the resources that are tied up as a result.

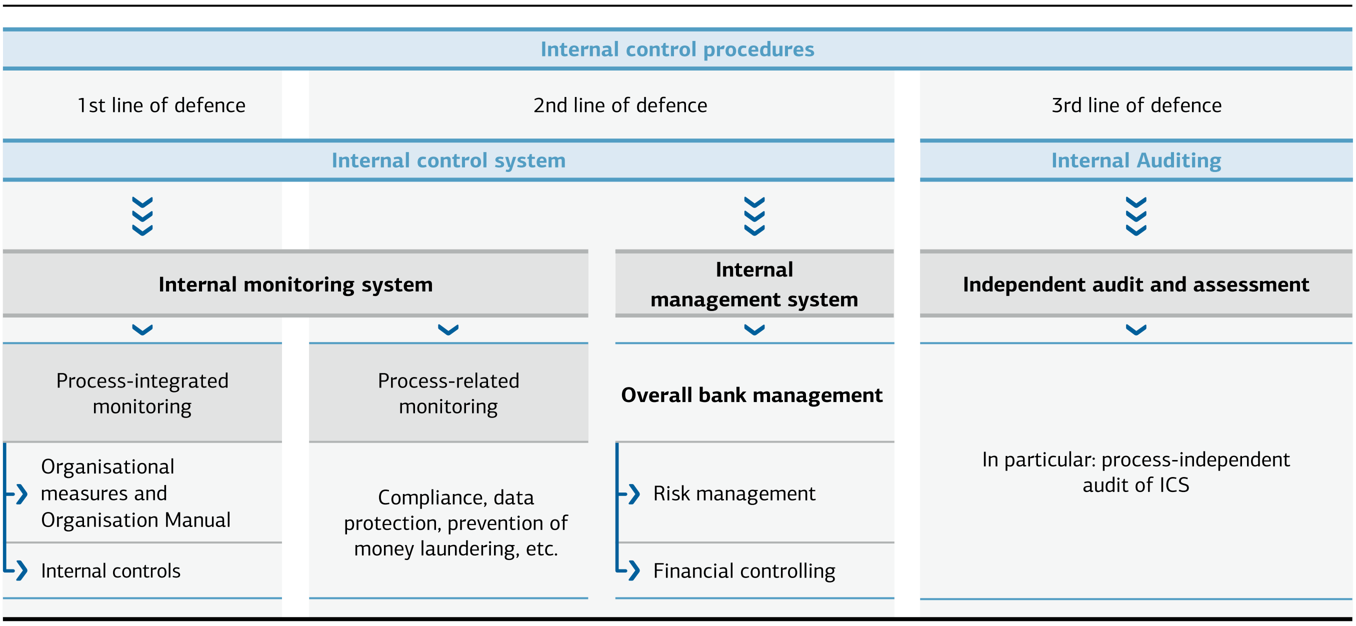
Regulatory risk is accounted for as part of the capital adequacy process using a conservative traffic light system as a management tool and early-warning instrument in accordance with regulatory capital requirements. In addition, KfW IPEX-Bank's capitalisation and possible capitalisation measures are continuously reviewed in the course of capital planning and in collaboration with the bank's shareholder. Furthermore, KfW IPEX-Bank actively tracks changes in its legal environment, enabling regulatory changes to be identified at an early stage and appropriate measures to be taken. 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

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 being complied with.

KfW IPEX-Bank's ICS includes the entire internal monitoring system (monitoring measures that are integrated into processes or that support processes) and the internal management system (rules for controlling corporate activities).

The ICS is based on the organisational structure of KfW IPEX-Bank, which involves risk-oriented separation of functions up to the level of the Management Board, and the Risk Manual and Organisation Manual of KfW IPEX-Bank, which together lay out the procedural rules of KfW IPEX-Bank.



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 which 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 culture. KfW IPEX-Bank's 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. It also encompasses regulatory compliance. Accordingly, the bank has binding rules and procedures that are continually updated to reflect the latest statutory and regulatory conditions as well as market requirements. The Compliance team performs risk-based control procedures on the basis of a control plan. Regular training sessions on compliance are held for KfW IPEX-Bank employees.

Internal control system – Process-integrated monitoring – Internal controls

KfW IPEX-Bank prepares an annual ICS report for the Audit Committee of the Board of Supervisory Directors in accordance with statutory reporting requirements, on the basis of KfW IPEX-Bank's independent ICS framework. In order to maintain group-wide standards on comprehensibility and basic methodology, the ICS of KfW IPEX-Bank is based on the ICS framework of KfW, particularly in terms of the structure of the internal control system using the COSO model[3)].

Monitoring measures integrated into processes help to prevent, reduce, detect and/or correct processing errors or financial losses. For this purpose, control activities have been incorporated into the business processes of KfW IPEX-Bank. The appropriateness and effectiveness of these activities is regularly assessed and reported annually to the Audit Committee of the Board of Supervisory Directors of KfW IPEX-Bank. 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)[4)].

Accounting-related internal control system

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

The performance of controls over the preparation of the annual financial statements is monitored by the respective 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').

[3)] COSO = Committee of Sponsoring Organizations of the Treadway Commission

[4)] 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

KfW IPEX-Bank needs well-trained and motivated employees who impress customers with their expertise, service-minded approach and professionalism. Important building blocks of the bank's human resources (HR) policy include a success-based, performance-oriented remuneration system, the KfW IPEX-Bank Academy in-house advanced development programme, arrangements to support a work-life balance, and a variety of professional and healthcare benefits. The proportion of employees working part-time rose to 23.3 % by year-end, and the proportion of female staff was 47.0 %.

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 values. As of 31 December 2017, 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 27.3 %. Within the framework of this law, 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 2017, and one further female appointment at departmental head level would have exceeded this target. At team head level, the targeted level of 27.5 % was met by 30 June 2017. The new target levels set for 30 June 2022 are 31.6 % at head of department level and 30 % at team head level. The target for the proportion of women on the Management Board of 25.0 % (i.e. 1 of 4) was met on 30 June 2017. Up until the term of office of the previous Board of Supervisory Directors expired on 22 March 2017, the target of 22.22 % (i.e. 2 of 9) had been achieved. Following new elections for employee representatives, the target level for the Board of Supervisory Directors ceased to be met, since no female employee representatives were elected from the workforce.

Non-financial statement pursuant to 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 2017 Sustainability Report. The report follows the Global Reporting Initiative (GRI) guidelines and can be downloaded on the internet[5].

[5] https://www.kfw.de/KfW-Group/Service/Download-Center/Sustainability-and-Environmental-Protection-(EN)/index.jsp

Forecast Report

KfW anticipates real global growth of 3.8% in 2018 and hence even stronger economic momentum again than in the previous year. This will be broad-based, since industrialised nations are expected to maintain their growth momentum (2018: 2.2%) and growth in developing and emerging countries is likely to be even higher than in 2017 (2018: 5.0%). The US economy is continuing to grow robustly, while in the United Kingdom the negative consequences of the Brexit vote and unsatisfactory progress of exit negotiations are likely to be felt even more strongly. In the group of developing and emerging countries, the situation is mixed. The ongoing recovery following recessions in Brazil, Russia and major countries in sub-Sahara Africa will have a positive impact in the regions concerned. Increased growth is anticipated in commodity-exporting countries, although in some cases they still need to make considerable macroeconomic adjustments to the comparatively low commodity prices. While India should benefit from its structural reforms, China will further adjust its growth model, leading to a moderate slowdown in growth.

In the past year the upturn in the European Economic and Monetary Union (EMU) gathered pace, and prospects of the robust recovery continuing in 2018 are good. KfW therefore expects GDP to grow by 2.4% in real terms. From a regional perspective, growth is now broad-based, and stronger momentum is now also being seen in Italy and France in particular. The most important pillar of economic recovery in the currency area remains healthy domestic economic development. Consumer spending is being underpinned by improvements in the labour market and the accompanying income growth. In addition, global acceleration in growth is providing a tailwind for the export sector and offsetting the adverse effects of the strong euro. We expect fiscal policy to provide a moderately expansionary stimulus, and there is also progress in cleaning up the balance sheets of banks, especially in Italy. Financing conditions should therefore remain favourable for the time being and, combined with high capacity utilisation, motivate companies to modernise their capital stock.

The German economy is in excellent shape at the start of 2018. In conjunction with stable domestic demand, the revival in exports resulting from the strengthening recovery in Europe and the world is leading to increasingly better utilisation of capacity. Business sentiment is therefore high, with companies ramping up investment. At the same time, consumer spending is expected to continue its significant upward trend, thanks to sustained growth in employment and rising wages. All in all, KfW expects robust real growth of around 2.5% in 2018.

In 2018 financial markets will remain dominated by highly expansionary monetary policy, even if the two major central banks are gradually tapering these measures. From January 2018 the European Central Bank halved its securities purchases to EUR 30 billion a month and announced its intention to continue at this level until September 2018. Currently it also appears likely that asset purchases will continue beyond September 2018, albeit at a reduced level. The first interest rate increases are not expected until the start of 2019 at the earliest, since the ECB has repeatedly confirmed its intention not to raise rates until well after the end of the asset purchase programme. Consequently, in 2018 in the euro area we expect moderate rises in capital market yields and slightly higher interest rates for longer maturities on money markets from the second half of the year. The US Federal Reserve is likely to continue its policy of monetary tightening in 2018, with a moderate rise in key interest rates as per the previous year. In view of the advanced economic cycle from mid-2019, we believe that the US central bank can hardly become more restrictive in its monetary policy, and therefore expect slightly sharper interest rate increases for short maturities than for longer ones.

On the basis of these global economic conditions, demand for exports from Germany and Europe, and for associated financing, is likely to be stable. High liquidity will continue to dominate the lending market as interest rates remain low. Combined with the ongoing pressure to invest facing institutional investors, this will create even more intense competition. In 2018 KfW IPEX-Bank will continue to focus on working with its market partners on a close and trusting basis. Through this active collaboration, its objective is to structure tailor-made syndicate financing to jointly provide the export and investment projects of German and European industry with the best possible support.

KfW IPEX-Bank aims to reinforce its position in 2018 as a dependable specialist financier and strong partner to key industries that are vital to the German and European economies. 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 2018, assisting them with their international activities by providing tailored medium and long-term financing for exports and foreign investment projects.

Despite the challenges outlined above, the bank believes there will be attractive market opportunities across all sector departments in the coming financial year. In regional terms, the focus will particularly be on growth markets that are important for the German and European economies in terms of exports and direct investment.

KfW IPEX-Bank has established its position in the market through its proven structuring expertise, which makes it a leading specialist financier. The bank is maintaining its sales and marketing activities at a high level across all sector departments and regions. It is selectively adding to its product portfolio, which is expected to help build on existing customer relationships and tap into new customer groups for financing transactions in the business sector. The bank will continue to set high standards of environmental and social responsibility for the projects it finances, many of which – as in previous years – are expected to have a direct positive impact on environmental and climate protection. Based on growing competition and a portfolio management strategy geared towards quality, KfW IPEX-Bank's targets for the 2018 financial year are new commitments of EUR 16.3 billion, earnings before tax of EUR 145 million and a CIR of 49.6 %. Contributions from net interest income and net commission income are expected to be slightly above the level of the previous year. Administrative expense will rise moderately due to the modernisation of Group IT, with costs borne on a pro-rata basis through service level agreements, as well as due to increasing regulatory requirements and rising personnel costs owing to collective wage agreements. The standard risk costs estimated in the budget on the basis of many years of historic average values are above the actual risk provision expense of the previous year. The planned CET1 capital ratio of 18.2 % is above the capital requirements and is also met in the stress case scenario. The funding plan indicates that KfW IPEX-Bank's liquidity is adequately ensured through the refinancing agreement with KfW. These targets are subject to the customary forecasting uncertainty arising from the unpredictability of major factors that influence the course of the bank's business. This uncertainty also applies to the forecast result for 2018, which will depend, as in previous years, on the level of risk provisions required in accordance with our conservative benchmarks.

As part of the implementation of the profit transfer agreement, KfW IPEX-Bank transfers its entire profit under German commercial law for the 2017 financial year to KfW Beteiligungsholding GmbH. A decision will subsequently be made on the basis of the bank's multi-annual 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

Report on equality and equal pay as per Section 21 of the German Remuneration Transparency Act

Corporate Governance Report

Financial Statements of KfW IPEX-Bank 2017

Balance Sheet of KfW IPEX-Bank as of 31 December 2017

Assets

	31 Dec. 2017				31 Dec. 2016			
	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				8	
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	**8**
2. Loans and advances to banks								
a) mortgage loans			0				0	
b) municipal loans			62,508				100,164	
c) other loans and advances			789,867	**852,375**			1,382,050	**1,482,214**
of which: due on demand	*1,135*				*1,027*			
of which: collateralised by securities	*0*				*0*			
3. Loans and advances to customers								
a) mortgage loans			617,360				678,816	
b) municipal loans			1,162,665				1,246,336	
c) other loans and advances			20,171,956	**22,005,981**			23,200,254	**25,134,406**
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		2,094,787	2,094,787			2,329,424	2,329,424	
of which: eligible as collateral with the Deutsche Bundesbank	*2,003,053*				*2,129,272*			
c) own bonds			0	**2,094,787**			0	**2,329,424**
Nominal value	0				0			
5. Investments				**68,717**				**95,636**
of which: in banks	360				360			
of which: in financial services institutions	*0*				*0*			
6. Assets held in trust				**234,299**				**239,567**
of which: loans held in trust	*233,671*				*239,567*			
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			308				357	
c) goodwill			0				0	
d) payments on account			0	**308**			0	**357**
8. Property, plant and equipment				**314**				**410**
9. Other assets				**120,275**				**100,041**
10. Prepaid expenses and deferred charges								
a) from issuing and lending			604				837	
b) other			13,364	**13,968**			21,590	**22,427**
Total assets				**25,391,032**				**29,404,490**

Liabilities and equity

	31 Dec. 2017				31 Dec. 2016			
	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			1,027,413				1,113,203	
c) other liabilities			18,929,513	**19,956,926**			22,561,549	**23,674,752**
of which: due on demand	*261,079*				*27,651*			
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			231,636	**231,636**			372,454	**372,454**
of which: due on demand	*5,579*				*10,742*			
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				**234,299**				**239,567**
of which: loans held in trust	*233,671*				*239,567*			
4. Other liabilities				**116,905**				**108,607**
5. Deferred income								
a) from issuing and lending			4,350				6,976	
b) other			16,436	**20,786**			26,191	**33,167**
6. Provisions								
a) provisions for pensions and similar commitments			148,003				123,919	
b) tax provisions			4,920				6,629	
c) other provisions			82,330	**235,253**			54,029	**184,577**
7. Subordinated liabilities				**416,910**				**948,677**
8. Fund for general banking risks				**323,664**				**368,248**
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			1,330,204				949,992	
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) balance sheet profit			0	**3,854,653**			0	**3,474,441**
Total liabilities and equity				**25,391,032**				**29,404,490**
1. Contingent liabilities								
a) from the endorsement of rediscounted bills		0				0		
b) from guarantees and guarantee agreements		1,553,667				1,639,671		
c) assets pledged as collateral on behalf of third parties		0	1,553,667			0	1,639,671	
2. Other obligations								
a) commitments deriving from non-genuine repurchase agreements		0				0		
b) placing and underwriting commitments		0				0		
c) irrevocable loan commitments		6,324,722	6,324,722			6,644,135	6,644,135	

Income Statement of KfW IPEX-Bank GmbH from 1 January 2017 to 31 December 2017

Expenses

	1 Jan. – 31 Dec. 2017				1 Jan. – 31 Dec. 2016			
	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 expense			395,461				338,253	
less positive interest from banking business			–7,302	**388,159**			–1,383	**336,870**
2. Commission expense				**3,575**				**5,986**
3. Administrative expense								
a) personnel expense								
aa) wages and salaries		72,934				73,123		
ab) social insurance contributions, expense for pension provision and other employee benefits		26,245	99,179			11,815	84,938	
of which: for pension provision	*18,011*				3,923			
b) other administrative expense			134,853	**234,032**			131,790	**216,728**
4. Depreciation and impairment on intangible assets and property, plant and equipment				**175**				**176**
5. Other operating expenses				**71,269**				**28,719**
6. Write-downs of and value adjustments on loans and specific securities and increase in loan loss provisions				**63,083**				**164,607**
7. Appropriations to the fund for general banking risks				**0**				**11,703**
8. Write-downs of and value adjustments on investments, shares in affiliated companies and securities treated as fixed assets				**15,306**				**40**
9. Taxes on income				**–310**				**2,838**
10. Profit transferred due to a profit pooling, profit transfer or partial profit transfer agreement				**113,261**				**105,050**
11. Net income for the year				**0**				**0**
Total expenses				**888,550**				**872,717**

Income

	1 Jan. – 31 Dec. 2017				1 Jan. – 31 Dec. 2016			
	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		680,272				665,091		
less negative interest from lending and money market transactions		–186	680,086			–2,048	663,043	
b) fixed-income securities and debt register claims		3,100				9,722		
less negative interest from fixed-income securities and debt register claims		–1,271	1,829	**681,915**		0	9,722	**672,765**
2. Current income from								
a) shares and other non-fixed income securities			0				0	
b) investments			9				9	
c) shares in affiliated companies			0	**9**			0	**9**
3. Commission income				**153,290**				**158,816**
4. Earnings on allocations to investments, shares in affiliated companies and securities treated as fixed assets				**44,584**				**0**
5. Other operating income				**8,752**				**41,127**
Total income				**888,550**				**872,717**

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 in accordance with the lower of cost or market principle. Differences between par values and amounts disbursed for loans and advances are included in deferred income whenever such differences have interest-like characteristics.

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 150 to EUR 1,000, which is depreciated on a straight-line basis over five 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 German 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 '2005 G Mortality and Disability Tables', applying the following actuarial assumptions:

	31 Dec. 2017
	in % p.a.
Interest rate for accounting purposes	3.68
Projected unit credit dynamics	2.20
Index-linking of pensions[1)]	1.00 bis 2.50
Staff turnover rate	4.10

1) Varies according to applicable pension scheme

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 the present value. Here, a present-value addition to the provision is taken and the initial discounting effect is offset against the expense. The interest effect resulting from subsequent valuation is reported under net interest income.

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, bonds and other fixed-income securities, equity 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. A nominal tax rate of 31.92 % is applied for the valuation of deferred tax assets. The option under Section 274 (1) of the German Commercial Code not to recognise deferred tax assets has been exercised.

Sufficient allowance has been made for risks arising from the lending business. 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. Loans for which specific loan loss provisions have been recognised are recorded internally as interest-free. Instead, interest income is recognised on the basis of the interest effect of expected cash flows. 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). Additions and reversals are reported net under the item 'Write-downs of and valuation 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 German Commercial Code.

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.

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, 2nd 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 (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 fee and 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, 2017 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 2017 amounts with a material impact occurred in connection with liabilities-side promissory note loans, money market transactions and interest-bearing securities.

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)]	54,651	282,442	354,253	126,922	23,365	10,742	852,375
(as of 31 Dec. 2016)	*93,036*	*269,674*	*708,649*	*368,047*	*30,807*	*12,001*	*1,482,214*
Loans and advances to customers	0	914,530	2,284,982	10,179,793	8,534,684	91,992	22,005,981
(as of 31 Dec. 2016)	*0*	*1,097,221*	*2,909,697*	*11,738,357*	*9,292,468*	*96,663*	*25,134,406*
Total	**54,651**	**1,196,972**	**2,639,235**	**10,306,715**	**8,558,049**	**102,734**	**22,858,356**
(as of 31 Dec. 2016)	*93,036*	*1,366,895*	*3,618,346*	*12,106,404*	*9,323,275*	*108,664*	*26,616,620*
in %	**0**	**5**	**12**	**45**	**37**	**1**	**100**

1) Loans and advances due on demand including municipal loans

of which to:	Loans and advances to Banks	Loans and advances to Customers	Total
	EUR in thousands	EUR in thousands	EUR in thousands
Shareholder	0	0	**0**
Affiliated companies	62,509	35,104	**97,613**
Companies in which KfW IPEX-Bank holds a stake	0	6,412	**6,412**
Subordinated assets	0	9,079	**9,079**

Bonds and other fixed-income securities

Listed/marketable securities

	31 Dec. 2017	31 Dec. 2016
	EUR in thousands	EUR in thousands
Listed securities	2,094,787	2,329,424
Unlisted securities	0	0
Marketable securities	**2,094,787**	**2,329,424**

The ‘Bonds and other fixed-income securities’ item totalling EUR 2,095 million (previous year: EUR 2,329 million) contains a portfolio of high-quality and highly liquid KfW securities (HQLA portfolio) in the amount of EUR 2,003 million (previous year: EUR 2,114 million), with KfW as an affiliated company. The portfolio includes securities amounting to EUR 463 million (previous year: EUR 325 million) which fall due during the year following the balance sheet date.

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 2017[1] EUR in thousands	Residual book value 31 Dec. 2017 EUR in thousands	Residual book value 31 Dec. 2016 EUR in thousands
Investments	–26,919	68,717	95,636
Bonds and other fixed-income securities	–123,801	91,734	215,535
of which: included in valuation units within the meaning of Section 254 of the German Commercial Code (HGB)	*–15,383*	*0*	*15,383*
Total	**–150,720**	**160,451**	**311,171**

[1] Including exchange rate changes

	Purchase/ production costs EUR in thousands	Additions EUR in thousands	Disposals EUR in thousands	Transfers EUR in thousands	Purchase/ production costs as of 31 Dec. 2017 EUR in thousands	Cumulative depreciation/impairment as of 1 Jan. 2017 EUR in thousands
Intangible assets	430	0	0	0	430	74
Property, plant and equipment[2]	826	30	0	0	856	416
Sum	**1,256**	**30**	**0**	**0**	**1,286**	**490**
Total						

	Depreciation/ impairment 2017	Write-ups	Cumulative depreciation/ impairment on … in the financial year			Cumulative depreciation/ impairment as of 31 Dec. 2017	Residual book value 31 Dec. 2017	Residual book value 31 Dec. 2016
			Additions	Disposals	Transfers			
	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	123	307	356
Property, plant and equipment[2]	126	0	3	0	0	542	314	410
Sum	**175**	**0**	**3**	**0**	**0**	**665**	**621**	**766**
Total							**161,073**	**311,937**

[2] Of which: as of 31 Dec. 2017: – total value of plant and equipment: EUR 314 thousand
– total value of land and buildings used for the bank's activities: EUR 0 thousand

Bonds and other fixed-income securities intended as a permanent part of business operations 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 92 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[1)]	Net income for the year[1)]
		in %	USD in thousands	USD in thousands
1.	Sperber Rail Holdings Inc., Wilmington, USA	100.0	4,787	916
2.	Bussard Air Leasing Ltd., Dublin, Ireland	100.0	–2,152	165
3.	Canas Leasing Ltd., Dublin, Ireland	50.0	0	0
4.	8F Leasing S.A., Luxembourg	22.2	11,650	273

1) Figures available as of 31 Dec. 2016 only

Assets held in trust

	31 Dec. 2017	31 Dec. 2016	Change
	EUR in thousands	EUR in thousands	EUR in thousands
Loans and advances to banks	93,367	93,596	-229
Loans and advances to customers	140,305	145,971	–5,666
Shares	627	0	627
Total	**234,299**	**239,567**	**–5,268**

In addition to assets held in trust of EUR 234 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 23.1 billion (previous year: EUR 23.7 billion) on behalf of KfW as an indirect agent.

Other assets

Other assets totalling EUR 120 million (previous year: EUR 100 million) primarily include the balancing item for the foreign currency translation of derivative hedges amounting to EUR 108 million, 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 8 million, as well as receivables from the tax authorities arising from tax advances and tax refund claims amounting to EUR 2 million (previous year: EUR 2 million).

Prepaid expenses and deferred charges

Prepaid expenses and deferred charges of EUR 14 million (previous year: EUR 22 million) include in particular upfront interest payments from swaps amounting to EUR 13 million (previous year: EUR 22 million) and discounts from liabilities capitalised as assets totalling EUR 1 million (previous year: EUR 1 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	261,079	2,346,730	3,492,032	9,474,673	4,293,953	88,459	19,956,926
(as of 31 Dec. 2016)	*27,651*	*3,771,079*	*3,622,477*	*10,795,682*	*5,361,143*	*96,720*	*23,674,752*
Liabilities to customers – other liabilities	5,579	168,929	486	10,627	40,378	5,637	231,636
(as of 31 Dec. 2016)	*10,742*	*307,997*	*0*	*4,366*	*44,646*	*4,703*	*372,454*
Total	**266,658**	**2,515,659**	**3,492,518**	**9,485,300**	**4,334,331**	**94,096**	**20,188,562**
(as of 31 Dec. 2016)	*38,393*	*4,079,076*	*3,622,477*	*10,800,048*	*5,405,789*	*101,423*	*24,047,206*
in %	**1**	**12**	**17**	**47**	**22**	**1**	**100**

	Liabilities to		Total
	Banks	Customers	
of which to:	EUR in thousands	EUR in thousands	EUR in thousands
Shareholder	0	0	0
Affiliated companies	19,837,680	0	19,837,680
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 Ordinance Regarding the Accounting System for Banks and Financial Services Institutions *(RechKredV)*

		31 Dec. 2017	31 Dec. 2016
		EUR in millions	EUR in millions
Public Pfandbriefe in issue		**1,025**	**1,112**
Cover assets			
Loans and advances to customers		1,135	1,186
a) mortgage loans		*0*	*0*
b) municipal loans		*529*	*567*
c) other loans and advances		*606*	*619*
Bonds and other fixed-income securities		260	185
Cover assets total		**1,395**	**1,371**
Over-collateralisation	**absolute value**	**370**	**259**
	in %	**36**	**23**

Information in accordance with Section 28 of the German Pfandbrief Act *(Pfandbriefgesetz – 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. 2017 EUR in millions	31 Dec. 2016 EUR in millions	31 Dec. 2017 EUR in millions	31 Dec. 2016 EUR in millions	31 Dec. 2017 EUR in millions	31 Dec. 2016 EUR in millions
Total value of Pfandbriefe in issue including derivatives	1,025	1,112	1,036	1,124	917	983
of which: derivatives	*0*	*0*	*0*	*0*	*0*	*0*
Total value of cover pools including derivatives	1,395	1,371	1,467	1,460	1,323	1,306
of which: derivatives	*0*	*0*	*0*	*0*	*0*	*0*
Over-collateralisation absolute value	**370**	**259**	**431**	**337**	**407**	**323**
in %	**36**	**23**	**42**	**30**	**44**	**33**

[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. 2017 EUR in millions	31 Dec. 2016 EUR in millions	31 Dec. 2017 EUR in millions	31 Dec. 2016 EUR in millions
up to 6 months	167	95	68	59
more than 6 to 12 months	0	0	63	86
more than 12 to 18 months	0	190	165	114
more than 18 months to 2 years	83	0	75	65
more than 2 to 3 years	75	95	281	238
more than 3 to 4 years	50	75	131	127
more than 4 to 5 years	233	50	117	127
more than 5 to 10 years	417	607	381	441
more than 10 years	0	0	114	114

Section 28 (1) No 9 of the German Pfandbrief Act	31 Dec. 2017 in %	31 Dec. 2016 in %
Proportion of fixed-rate		
– cover pool	*35*	*29*
– Pfandbriefe	*31*	*25*

Section 28 (1) No 10 of the German Pfandbrief Act (as per Section 6 of the Pfandbrief Net Present Value Regulation)	Net present value in EUR	
	31 Dec. 2017 EUR in millions	31 Dec. 2016 EUR in millions
AUD	22	18
USD	95	58

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. 2017	31 Dec. 2016	31 Dec. 2017	31 Dec. 2016	31 Dec. 2017	31 Dec. 2016
	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. 2017	31 Dec. 2016
	EUR in millions	EUR in millions
up to EUR 10 million	9	13
more than EUR 10 million to EUR 100 million	226	229
more than EUR 100 million	1,160	1,129
Total	**1,395**	**1,371**

	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. 2017		31 Dec. 2016		31 Dec. 2017		31 Dec. 2016		31 Dec. 2017		31 Dec. 2016	
	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	
Federal Republic of Germany	0	784	0	944	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
Austria	0	5	0	9	0	0	0	0	0	0	0	0
Total	**0**	**789**	**0**	**953**	**0**	**0**	**0**	**0**	**0**	**40**	**0**	**40**

[1] Owed
[2] Guaranteed

	Other debtors				Total		thereof: guarantees provided to promote export finance	
	31 Dec. 2017		31 Dec. 2016		31 Dec. 2017	31 Dec. 2016	31 Dec. 2017	31 Dec. 2016
	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
Federal Republic of Germany	361	0	267	0	1,185	1,251	784	944
Denmark	0	116	0	56	116	56	116	56
Finland	0	89	0	55	89	55	89	55
Austria	0	0	0	0	5	9	5	9
Total	**361**	**205**	**267**	**111**	**1,395**	**1,371**	**994**	**1,064**

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. 2017	31 Dec. 2016	31 Dec. 2017	31 Dec. 2016
	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. 2017	31 Dec. 2016	Change
	EUR in thousands	EUR in thousands	EUR in thousands
Liabilities to customers	234,299	239,567	–5,268
Total	**234,299**	**239,567**	**–5,268**

Other liabilities

Other liabilities of EUR 117 million (previous year: EUR 109 million) mainly consist of the liability to KfW Beteiligungsholding GmbH resulting from the existing profit transfer agreement of EUR 113 million and liabilities to the tax authorities of EUR 1 million (previous year: EUR 2 million).

Deferred income

Deferred income totalling EUR 21 million (previous year: EUR 33 million) mainly comprises discounts from upfront interest payments from swaps that have been received but do not yet impact income of EUR 16 million (previous year: EUR 26 million) and discounts from receivables purchases totalling EUR 4 million (previous year: EUR 7 million).

Provisions

In addition to provisions for pensions and similar commitments totalling EUR 148 million (previous year: EUR 124 million) and tax provisions amounting to EUR 5 million (previous year: EUR 7 million), other provisions of EUR 82 million (previous year: EUR 54 million) were recognised as of 31 December 2017. These other provisions relate in particular to liabilities to staff (EUR 24 million), provisions for contingent losses for derivatives concluded in connection with lending business (EUR 22 million), provisions for credit risks (EUR 14 million), provisions for the repayment of processing fees pursuant to the ruling by the German Federal Court of Justice (*Bundesgerichthof – BGH*) in July 2017 (EUR 11 million) and archiving costs (EUR 8 million).
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 31 million as of 31 December 2017.

Subordinated liabilities

KfW has granted KfW IPEX-Bank a subordinated loan amounting to USD 500 million with the following contractual conditions:

Amount in millions	Currency	Interest rate	Maturity date
500	USD	3-month USD LIBOR + 0.85 % p.a. until 27 February 2015; premium subsequently increases by 0.5 % to + 1.35 % p.a.	31 Dec. 2019

A further subordinated loan of USD 500 million was repaid early to KfW on 29 September 2017. In a letter dated 12 June 2017, 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 are made quarterly. KfW IPEX-Bank is not obliged to repay the subordinated loan ahead of schedule.

Interest expense for subordinated loans in 2017 amounted to the equivalent of EUR 18 million (previous year: EUR 16 million).

The subordinated liabilities are due exclusively to KfW as an affiliated company.

Other required disclosures on liabilities and equity

Contingent liabilities

Sector department	31 Dec. 2017 EUR in millions	31 Dec. 2016 EUR in millions	Change EUR in millions
Power, Renewables and Water	676	721	–45
Aviation and Rail	261	295	–34
Industries and Services	196	192	4
Transport and Social Infrastructure (PPP)	125	128	–3
Financial Institutions, Trade and Commodity Finance	120	6	114
Basic Industries	113	139	–26
Maritime Industries	63	159	–96
Equity Portfolio	0	0	0
Total	**1,554**	**1,640**	**–86**

New guarantees given in financial year 2017 amounted to EUR 143 million. In contrast, a total of EUR 229 million was redeemed. The risk in relation to loan guarantees is reduced by existing options for recourse to the customer and is essentially based on the customer's rating and the recoverability of any collateral. The bank regularly reviews the risk as part of credit risk monitoring. If there are reasons to expect utilisation of a guarantee, the bank recognises specific provisions, and general provisions are recognised to take account of latent risks. Contingent liabilities are reported net of any provisions and cash collateral received that have been recognised on the balance sheet under liabilities.

Irrevocable loan commitments

Sector department	31 Dec. 2017 EUR in millions	31 Dec. 2016 EUR in millions	Change EUR in millions
Power, Renewables and Water	1,722	1,793	–71
Maritime Industries	1,155	1,342	–187
Basic Industries	1,096	786	310
Aviation and Rail	788	781	7
Industries and Services	711	933	–222
Transport and Social Infrastructure (PPP)	469	614	–145
Financial Institutions, Trade and Commodity Finance	384	395	–11
Equity Portfolio	0	0	0
Total	**6,325**	**6,644**	**–319**

Total irrevocable loan commitments as of 31 December 2017 stood at EUR 6,325 million. Risks from these transactions are taken into account by creating portfolio loan loss provisions and specific loan loss provisions.

Irrevocable loan commitments are subject to regular monitoring with regard to credit risks. If there are concrete findings indicating a loss due to expected utilisation, a specific provision is recognised; latent risks are taken into account through the recognition of portfolio provisions.

Required disclosures on the income statement

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

In financial year 2017, income from Frankfurt am Main and London was as follows:

	31 Dec. 2017			31 Dec. 2016		
	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	669,787	12,128	681,915	652,735	20,030	672,765
Current income from						
a) shares and other non-fixed-income securities	0	0	0	0	0	0
b) investments	9	0	9	9	0	9
c) shares in affiliated companies	0	0	0	0	0	0
Commission income	153,149	141	153,290	158,488	328	158,816
Other operating income	1,188	7,564	8,752	30,636	10,491	41,127
Total	**824,133**	**19,833**	**843,966**	**841,868**	**30,849**	**872,717**

Interest expense and interest income

Valuation of provisions led to interest expense from compounding of EUR 7,064 thousand (previous year: EUR 4,533 thousand) and interest income from discounting of EUR 391 thousand (previous year: EUR 305 thousand).

In 2017 negative interest amounts arose to a significant extent for the first time in connection with liabilities-side promissory note loans (EUR 4,357 thousand) and interest-bearing securities (EUR 1,271 thousand). Furthermore, as per the previous year negative interest amounts arose to a significant extent in connection with money market transactions: EUR 2,945 thousand (previous year: EUR 1,383 thousand) from call money and term borrowings, EUR 186 thousand (previous year: EUR 2,048 thousand) from call money and term lending.

Other operating expense

Other operating expense amounted to EUR 71 million (previous year: EUR 29 million). This primarily includes realised and unrealised exchange losses from foreign currency valuation totalling EUR 49 million (previous year: EUR 28 million) and the appropriation to provisions for contingent losses for derivatives of EUR 22 million.

Other operating income

Other operating income of EUR 9 million (previous year: EUR 41 million) chiefly relates to income from the reversal of provisions no longer required of EUR 4 million, realised and unrealised exchange gains from foreign currency valuation totalling EUR 3 million (previous year: EUR 36 million) and income from services provided to group companies totalling EUR 2 million (previous year: EUR 2 million).

Expenses and income relating to other financial years
Commission income includes an amount of EUR 1.9 million resulting from settlement of remuneration for the E&P trust business. This amount relates to the 2016 financial year. There are no further expenses or income relating to other financial periods.

Taxes on income
Taxes on income totalling EUR 2 million (previous year: EUR 3 million) mainly relate to income tax expense for the branch office in London, which is still incurred irrespective of the profit transfer agreement concluded between KfW Beteiligungsholding GmbH and KfW IPEX-Bank. This is offset by a trade tax refund in relation to previous financial years for the Frankfurt headquarters in the same amount.

Appropriation of profit
As part of the implementation of the existing profit transfer agreement, the annual profit (EUR 113 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 2017.

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 2017, 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 14.8 billion (previous year: EUR 18.6 billion), of which EUR 13.9 billion related to loans and advances to customers.

Total liabilities denominated in foreign currency amounted to EUR 14.8 billion (previous year: EUR 18.6 billion), of which the majority (EUR 10.3 billion) related to liabilities to banks.

Other financial liabilities
Total call obligations arising in connection with equity finance transactions amounted to EUR 4 million (previous year: EUR 7 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 fixed assets and as the liquidity reserve which are hedged in valuation units against interest risks as of the balance sheet date.

	Nominal value		Carrying amount		Fair value	
	31 Dec. 2017	31 Dec. 2016	31 Dec. 2017	31 Dec. 2016	31 Dec. 2017	31 Dec. 2016
	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions
Fixed assets						
Bonds and other fixed-income securities	0	15	0	15	0	16
Liquidity reserve						
Bonds and other fixed-income securities	1,995	2,100	2,003	2,114	2,016	2,142
Total	**1,995**	**2,115**	**2,003**	**2,129**	**2,016**	**2,158**

KfW IPEX-Bank uses derivatives only to hedge open positions. The option to account for economic hedges in the form of valuation units 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 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 2017 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
   - Swaptions
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 2017.

Derivative transactions – volumes

	Nominal value		Fair values positive	Fair values negative
	31 Dec. 2017	31 Dec. 2016	31 Dec. 2017	31 Dec. 2017
	EUR in millions	EUR in millions	EUR in millions	EUR in millions
Contracts with interest rate risks				
Interest rate swaps	23,886	22,568	710	813
Swaptions	0	49	0	0
Caps/floors	110	56	0	0
Total	**23,996**	**22,673**	**710**	**813**
Contracts with foreign exchange risks				
Cross-currency swaps	1,189	1,154	96	12
FX swaps	2,865	2,360	17	10
FX forward transactions	126	51	1	1
Total	**4,180**	**3,565**	**114**	**23**
Share and other price risks	**0**	**0**	**0**	**0**
Credit derivatives	**0**	**0**	**0**	**0**
Total	**28,176**	**26,238**	**824**	**836**

Derivative transactions – maturities by nominal volume

	Interest rate risks		Foreign exchange risks		Credit derivatives	
	31 Dec. 2017	31 Dec. 2016	31 Dec. 2017	31 Dec. 2016	31 Dec. 2017	31 Dec. 2016
	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions
Maturity						
– up to 3 months	709	407	2,317	2,227	0	0
– more than 3 months to 1 year	1,396	1,360	747	534	0	0
– more than 1 year to 5 years	9,654	9,821	974	651	0	0
– more than 5 years	12,237	11,085	142	153	0	0
Total	**23,996**	**22,673**	**4,180**	**3,565**	**0**	**0**

Derivative transactions – counterparties

	Nominal value		Fair values positive	Fair values negative
	31 Dec. 2017	31 Dec. 2016	31 Dec. 2017	31 Dec. 2017
	EUR in millions	EUR in millions	EUR in millions	EUR in millions
Counterparties				
OECD banks	18,882	17,768	195	769
Non-OECD banks	0	0	0	0
Other counterparties	8,684	8,470	573	62
Public sector	610	0	55	5
Total	**28,176**	**26,238**	**824**	**836**

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 18,611 million as of 31 December 2017 (previous year: EUR 17,847 million). In addition, financial guarantees amounting to EUR 162 million (previous year: EUR 128 million) were administered.

	31 Dec. 2017	31 Dec. 2016	Change
	EUR in millions	EUR in millions	EUR in millions
Market business	6,324	5,339	985
Trust business	9,618	9,693	–75
Other[1]	2,669	2,815	–146
Total	**18,611**	**17,847**	**764**

[1] Including refinancing for CIRR ship financings by third-party banks totalling EUR 2,488 million (previous year: EUR 2,719 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 average number of staff, not including trainees and the Management Board (but including temporary staff), was calculated from the end-of-quarter figures during financial year 2017.

	2017	2016	Change
Female employees	313	309	4
Male employees	363	353	10
Staff not covered by collective agreements	556	550	6
Staff covered by collective agreements	120	112	8
Total	**676**	**662**	**14**

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 2017 was EUR 1,946 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	Other remuneration[2)]	Total
	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands
Klaus R. Michalak (CEO)	402	74	15	491
Christian K. Murach[3)]	86	75	5	166
Markus Scheer	402	75	23	501
Claudia Schneider[4)]	312	–	4	316
Andreas Ufer	402	37	32	471
Total	**1,605**	**262**	**79**	**1,946**

1) Differences may occur in the table due to rounding.
2) Other remuneration comprises payments for use of company cars, insurance premiums and taxes incurred on such remuneration.
3) Left KfW IPEX-Bank GmbH with effect from 16 March 2017
4) Appointed to the Management Board of KfW IPEX-Bank GmbH as of 17 March 2017

Total remuneration paid to the members of the Board of Supervisory Directors was EUR 136 thousand (net). Attendance fees amounting to EUR 88 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, or 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 Secretary Machnig also waived his remuneration and attendance fees.

Deferred performance-based bonuses totalling EUR 29 thousand and retirement pension payments totalling EUR 174 thousand were paid to former members of the Management Board in the 2017 financial year. As of 31 December 2017, provisions for pensions for former members of the Management Board and their surviving dependents stood at a total of EUR 11,821 thousand.

As of 31 December 2017, there were no loans outstanding to members of the Management Board or the Board of Supervisory Directors.

Subsequent events

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

Board of Supervisory Directors

Dr Norbert Kloppenburg
(Member of the Executive Board, KfW Group)
(Chairman of the Board of Supervisory Directors)
up to 25 October 2017

Prof. Dr Joachim Nagel
(Member of the Executive Board, KfW Group)
(Chairman of the Board of Supervisory Directors)
from 25 October 2017

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

Guido Knittel
(KfW IPEX-Bank employee representative, Chairman of the works council)
from 22 March 2017

Dieter Koch
(KfW IPEX-Bank employee representative, Project Manager)
from 22 March 2017

Dagmar P. Kollmann
(Businesswoman and Supervisory Board member)

Matthias Machnig
(State Secretary, Federal Ministry for Economic Affairs and Energy)

Dr Nadja Marschhausen
(KfW IPEX-Bank employee representative, Department Head)
up to 22 March 2017

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

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

Dr Ludger Schuknecht
(Head of Directorate, Federal Ministry of Finance)

Friedrich Weigmann
(KfW IPEX-Bank employee representative, Project Manager)
up to 22 March 2017

Management Board

Klaus R. Michalak
(CEO)

Andreas Ufer

Christian K. Murach
Left the bank with effect from 16 March 2017

Markus Scheer

Claudia Schneider
Member of the Management Board since 17 March 2017

Frankfurt am Main, 13 February 2018

Klaus R. Michalak	**Andreas Ufer**
Markus Scheer	**Claudia Schneider**

Auditor's Report

Independent auditor's report

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 2017, and the income statement for the financial year from 1 January 2017 to 31 December 2017, 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 2017 to 31 December 2017. In accordance with the German legal requirements, we have not audited the content of the statement on corporate governance pursuant to Sec. 289f (4) of the German Commercial Code (*Handelsgesetzbuch – HGB*) (disclosures on the quota for women on executive boards).

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 Company as of 31 December 2017 and of its financial performance for the financial year from 1 January 2017 to 31 December 2017 in compliance with German legally required accounting principles, and
- the accompanying management report as a whole provides an appropriate view of the Company'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 content of the statement on corporate governance referred to above. 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 Institute of Public Auditors in Germany *(Institut der Wirtschaftsprüfer - 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 Company 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 2017 to 31 December 2017. 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.

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

Valuation of the Maritime Industries credit portfolio
Reasons why the matter was determined to be a key audit matter
Valuation of the credit portfolios and the resulting estimate of any necessary write-downs or 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. Minor changes in the assumptions can lead to significantly differing valuations, leading to different requirements for loan loss provisions or write-downs, especially in the Maritime Industries credit portfolio, which in some segments faces continuing adverse market conditions.

During the course of our audit, the valuation of the Maritime Industries credit portfolio within the customer loan volume was a key audit matter, since this constitutes a high proportion of the overall customer credit volume of KfW-IPEX Bank, and at the same time adverse market conditions continue in some segments of Maritime Industries. Furthermore, the Maritime Industries credit portfolio has a significantly higher rate of specific loan loss provisions in comparison to the Bank's overall portfolio. With this in mind, judgemental decisions made when determining the assumptions regarding the valuation of the Maritime Industries portfolio can have a particularly strong impact.

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 the management of loans on watch lists for potential and acute default risks, rating class, the level of net exposure and specific loan loss provisions recognised.

In particular, we examined the significant assumptions in the impairment review process. This included reviewing the estimates of the expected future cash flows from customers, including the cash flows from the realisation of collateral held, and estimates of the recoverability of defaults on payments.

In the case of asset financing transactions, we placed particular emphasis on collateral. This included evaluating the expertise and objectivity of the expert as well as the valuation methods used by the expert in opinions which were used by KfW IPEX-Bank in order to value collateral or to assess estimates of future cash flows.

We also consulted our own industry experts to validate the valuation methods and estimates of the Bank's management.

Our audit procedures did not lead to any reservations with respect to the valuation of the Maritime Industries credit portfolio.

Reference to related disclosures

The Company's disclosures on the valuation of the credit portfolios (including Maritime Industries) are contained in the 'Accounting and valuation methods' 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 KfW IPEX-Bank, 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:

– Report on equality and equal pay
– Statement on corporate governance pursuant to Sec. 289f (4) HGB (disclosures on the quota for women on executive boards)
– Non-financial statement in accordance with Sec. 289b (2) HGB

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 Company 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 Company'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 Company'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 Company'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 Company'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 skepticism 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 Company.
– 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 Company'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 Company 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 Company in compliance with German legally required accounting principles.
– Evaluate the consistency of the management report with the annual financial statements, its conformity with [German] law, and the view of the Company's position it provides.

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 26 October 2016. We were engaged by the Board of Supervisory Directors on 24 November 2016. 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 Association of German Public Banks (*Bundesverband Öffentlicher Banken Deutschlands e.V. – VÖB)*
– Review of the report pursuant to Sec. 53 of the German Law on Budgetary Principles (*Haushaltsgrundsätzegesetz – HGrG*) regarding remuneration paid to the members of the Board of Supervisory Directors and the Management Board as well as to managerial staff at KfW IPEX-Bank.

German Public Auditor responsible for the engagement
The German Public Auditor responsible for the engagement is Martina Dombek.

Eschborn/Frankfurt am Main, 27 February 2018

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Dombek
German Public Auditor

Stapel
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. Profit or loss before tax
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 prepared in accordance with the German Commercial Code (*Handelsgesetzbuch – HGB*) as of 31 December 2017.[6)]

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	374.54	576	105.28	–1.88	0.00
UK	KfW IPEX-Bank GmbH	Export and project finance	London	13.96	22	7.67	1.57	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 Banking Act.

As of 31 December 2017, the return on assets within the meaning of Section 26a (1) sentence 4 of the Act is 0.0045 or 0.45 %.

6) Consolidated financial statements are not prepared. KfW IPEX-Bank GmbH is included in the consolidated financial statements of KfW Group, Frankfurt am Main.

Report on equality and equal pay as per Section 21 of the German Remuneration Transparency Act[7)]

KfW IPEX-Bank owes a great deal of its long-term market success as a leading project and export financier to the extraordinary commitment and excellent work of its highly motivated employees. It therefore needs well-trained and motivated employees who impress customers with their expertise, service-minded approach and professionalism.

To ensure that this is the case, the bank offers a success-based, performance-oriented remuneration system, the KfW IPEX-Bank Academy in-house advanced development programme, which was newly introduced in 2016, flexible building blocks to enable work-life balance and a variety of professional and healthcare benefits.

Measures to promote equality
KfW IPEX-Bank's commitment to gender equality is a key component of its human resources policy. KfW IPEX-Bank participates in the group-wide gender balance programme and enables its female and male employees to take part in group-wide initiatives such as shadowing, mentoring and group coaching. In addition, a series of internal debates was held on the theme of 'Women in management', where experienced and potential female managers discussed what prevents women taking on managerial roles and what can motivate them to do so. The findings from these debates were used to develop further measures, which will be implemented on a gradual basis. Objectives include increasing the number of women in management positions and improving work-life balance. For example, a works agreement sets out options for taking a leave of absence to care for a child or close relative and for professional development or other training. Moreover, the bank offers flexible part-time working models and opportunities for mobile working.

In accordance with the German law on equal participation of women and men in management positions in the private and public sectors, KfW IPEX-Bank pursues the explicit objective of increasing the proportion of women in management positions and reports on this on an annual basis in its Sustainability Report.

Measures to establish equal pay
As a company governed by a collective bargaining agreement, KfW IPEX-Bank applies the collective agreements for private and public banks. The remuneration system for positions not covered by collective agreements is subject to a works agreement that is transparent and easy to understand and can be accessed by all employees. This takes account of equal pay through clear assignment of similar activities and responsibilities to a function and to a career grade. A salary band is defined for each combination of function and career grade, and a standardised, gender-neutral approach is taken to setting the criteria for individual career grades (including qualifications and responsibilities).

In addition, for several years the works council has audited the performance of the annual salary review in order to enhance pay transparency and assess equal pay. Afterwards, employees are informed of the council's findings in a works meeting; to date the works council has not identified any irregularities with regard to potential pay disparity. Furthermore, the Management Board receives a quarterly report on HR issues, which includes reporting on gender-related pay issues.

Employees were informed at a separate works meeting that the German Remuneration Transparency Act (*Entgelttransparenzgesetz – EntgTranspG*) had come into force. An email address was set up in order to respond to individual requests for information, which can be used by employees wishing to assert their individual right to information pursuant to Section 10 of the Remuneration Transparency Act. These enquiries are answered by the employer in coordination with the works council.

Quantitative figures on employees[1)] in 2016 (average values)

Total number of employees	**662**
of which: female	*309*
of which: male	*353*
Full-time employees	515
of which: female	*178*
of which: male	*337*
Part-time employees	147
of which: female	*131*
of which: male	*16*

[1)] Not including the Management Board
[7)] *Entgelttransparenzgesetz – EntgTranspG*

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 on 22 March 2017, the recommendations of the Federal Government's 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 recommendations.'

D&O insurance deductible

KfW has concluded 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 certain predefined limits; this is contrary to Clause 5.1.8 of the PCGC. 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 may 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. However, 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 2 of the Articles of Association, rather than set by the supervisory body itself.

Allocation of responsibilities

The Management Board has adopted Rules of Procedure, after consulting with the Board of Supervisory Directors and with the shareholder's consent, 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 shareholder's approval – 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 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 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, Products and Corporate Affairs including Compliance (CEO and CFO)
- Mr Andreas Ufer (until 16 March 2017): Risk, since 17 March 2017: Markets II and Treasury
- Mr Markus Scheer: Markets I
- Ms Claudia Schneider (since 17 March 2017): Risk
- Mr Christian Murach (until 16 March 2017): Markets II

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 non-competition 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 latter is to be chaired by a representative of KfW. As the Chairman until 25 October 2017 was Dr Norbert Kloppenburg, and his successor from that date was Prof. Dr Joachim Nagel, this requirement is met. During the reporting year and as of 31 December 2017, 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. Where loans were submitted to the Loan Committee for approval, there were no cases in which members abstained from the vote in order to avoid a conflict of interest. One 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 assignment 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

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 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 member of the deposit guarantee fund of the Association of German Public Banks (*Bundesverband Öffentlicher Banken Deutschlands e.V.*) on a voluntary basis.

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 risk-bearing capacity. 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 of KfW Group that meet on a regular basis, and decisions are taken on risk-related measures. The Board of Supervisory Directors is regularly – at least once per quarter – given detailed information on the bank's risk situation.

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 and 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; these are continually updated to reflect the current legislative framework as well as market requirements. Compliance also encompasses regulatory compliance. Training sessions on all compliance-related issues are held on a regular basis for KfW IPEX-Bank employees.

Accounting and annual audit

On 26 October 2016, the shareholder of KfW IPEX-Bank appointed Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft as auditor of the financial statements for the 2017 financial year. The Board of Supervisory Directors then issued the audit assignment to Ernst & Young on 24 November 2016 and in

October 2017 determined the audit priorities together with the auditor. 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 2017 on the basis of structured questionnaires. The overall outcome of the assessment was a score of 1.5. 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 2017 and will be completed in the first quarter of 2018.

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*). The contracts take PCGC requirements into account.

Components of remuneration

The remuneration of the Management Board consists of a fixed annual base annual 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*). However, the new requirements of the Ordinance as amended on 4 August 2017 were implemented for the first time when targets were agreed for the 2018 financial year. 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 shareholder – 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 bank, 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

	2017 EUR in thousands	2016 EUR in thousands	Change EUR in thousands
Members of the Management Board	1,946	1,817	128
Members of the Board of Supervisory Directors	224	214	10
Total	**2,169**	**2,031**	**138**

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 2017 and 2016 in EUR thousands[1)]

	Salary		Variable remuneration		Other remuneration[4)]		Total		Bonus account[5)]		Additions to pension provisions	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
		EUR in thousands		EUR in thousands		EUR in thousands		EUR in thousands		EUR in thousands		EUR in thousands
Klaus R. Michalak (CEO)	402	395	74	36	15	15	491	446	276	239	278	121
Christian K. Murach[2)]	86	395	75	46	5	19	166	460	151	207	30	429
Markus Scheer	402	395	75	46	23	23	501	464	217	207	418	76
Claudia Schneider[3)]	312	–	–	–	4	–	316	–	66	0	95	–
Andreas Ufer	402	395	37	21	32	30	471	446	187	140	256	63
Total	**1,605**	**1,579**	**262**	**150**	**79**	**88**	**1,946**	**1,817**	**898**	**793**	**1,077**	**689**

1) Rounding differences may occur in the table for computational reasons.
2) Left KfW IPEX-Bank GmbH with effect from 16 March 2017
3) Appointed to the Management Board of KfW IPEX-Bank GmbH as of 17 March 2017
4) This remuneration is presented in analogy with the figures stated 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 50 thousand in 2017 (previous year: EUR 49 thousand).
5) As well as individual performance-based bonuses carried forward from previous years, the bonus account also includes the provision for bonuses for financial year 2017. In this financial year bonus components due for payment and carried forward were paid out in part with a premium due to a sustainable value increase of KfW IPEX-Bank. There were no deductions for penalties.

Responsibilities

The shareholder 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 23 June 2017.

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. During the reporting period, a deductible of 10% was agreed 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 2017, 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 2017 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 2017.

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

According to Section 5 (1) 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. Board members who turn 65 and/or reach statutory retirement age and whose contract for serving on the Management Board has expired are entitled to retirement pension payments. Two board members who were first appointed as members of the Management Board prior to 2014 may, at their request, retire early when they reach 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. 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 equals 70% of the pensionable remuneration. In one case this entitlement amounts to 55% of the final gross basic salary. The pensionable remuneration is derived from the most recent gross basic salaries paid. 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 174 thousand (previous year: EUR 172 thousand) were made in the 2017 financial year.

In addition, deferred performance-based bonuses totalling EUR 29 thousand were paid to former members of the Management Board. As of 31 December 2017, further deferred bonus components of EUR 15 thousand remained in the bonus account (previous year: EUR 44 thousand).

Provisions for pensions for former members of the Management Board and their surviving dependents totalled EUR 11,821 thousand at the end of the 2017 financial year (previous year: EUR 7,184 thousand).

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. As per the shareholder resolution of 14 April 2010, the remuneration scheme of 2008 and 2009 was continued in 2010 and for the following years. According to its provisions, the net annual remuneration for a member of the Board of Supervisory Directors is EUR 22,000; the net annual remuneration for the Chairman is EUR 28,600.

Remuneration is earned on a pro rata basis when service is rendered for less than one year.

In addition, the members of the Board of Supervisory Directors receive a net fee of EUR 1,000 for each meeting of the Board of Supervisory Directors or of one of its committees that they attend. Members of the Board of Supervisory Directors can also claim, to a reasonable extent, reimbursement for 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.

Details regarding the remuneration of the Board of Supervisory Directors during the 2017 and 2016 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 2017 in EUR

Member	Dates of service	Annual net remuneration	Attendance fees[1)]	Total
Dr Kloppenburg	1 Jan. – 25 Oct.	–	–	–
Prof. Dr Nagel	25 Oct. – 31 Dec.	–	–	–
Dr Peiß	1 Jan. – 31 Dec.	–	–	–
State Secretary Machnig[2)]	1 Jan. – 31 Dec.	–	–	–
Dr Schuknecht	1 Jan. – 31 Dec.	22,000.00	16,000.00	38,000.00
Ms Kollmann	1 Jan. – 31 Dec.	22,000.00	14,000.00	36,000.00
Dr Rupp	1 Jan. – 31 Dec.	22,000.00	17,000.00	39,000.00
Mr Gasten	1 Jan. – 31 Dec.	22,000.00	13,000.00	35,000.00
Mr Knittel	22 Mar. – 31 Dec.	18,335.00	13,000.00	31,335.00
Mr Koch	22 Mar. – 31 Dec.	18,335.00	8,000.00	26,335.00
Dr Marschhausen	1 Jan. – 22 Mar.	5,500.00	5,000.00	10,550.00
Mr Weigmann	1 Jan. – 22 Mar.	5,500.00	2,000.00	7,500.00
Total		**135,670.00**	**88,000.00**	**223,670.00**

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 2016 in EUR

Member	Dates of service	Annual remuneration	Attendance fees[1)]	Total
Dr Kloppenburg	1 Jan. – 31 Dec.	–	–	–
Mr Loewen	1 Jan. – 20 Mar.	–	–	–
Dr Peiß	21 Mar. – 31 Dec.	–	–	–
Dr Rupp	1 Jan. – 31 Dec.	22,000.00	17,000.00	39,000.00
State Secretary Geismann[2)]	1 Jan. – 20 Oct.	18,334.00	12,000.00	30,334.00
Dr Schuknecht[2)]	3 Nov. – 31 Dec.	3,667.00	4,000.00	7,667.00
State Secretary Machnig[3)]	1 Jan. – 31 Dec.	–	–	–
Ms Kollmann	1 Jan. – 31 Dec.	22,000.00	12,000.00	34,000.00
Dr Marschhausen	1 Jan. – 31 Dec.	22,000.00	19,000.00	41,000.00
Mr Goretzki	1 Jan. – 31 Jul.	12,834.00	6,000.00	18,834.00
Mr Gasten	1 Aug. – 31 Dec.	9,167.00	4,000.00	13,167.00
Mr Weigmann	1 Jan. – 31 Dec.	22,000.00	8,000.00	30,000.00
Total		**132,002.00**	**82,000.00**	**214,002.00**

1) Lump sum of EUR 1,000 net per meeting attended
2) This amount is subject to the German Sideline Activity Earnings Regulation (*Bundesnebenverdienstordnung*).
3) Remuneration not claimed

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.

Frankfurt, March 2018

Management Board **Board of Supervisory Directors**

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