Annual Report 2012

Bank aus Verantwortung

KfW IPEX-Bank

2012

Key figures

Volume of lending of the Export and Project Finance business area

Volume of lending of the business area[1] by business sector	2012 EUR in billions
Maritime Industries	14.2
Aviation and Rail	11.3
Power, Renewables and Water	10.9
Basic Industries	7.7
Transport and Social Infrastructure	7.3
Industries and Services	6.7
Financial Institutions, Trade & Commodity Finance	2.7
Leveraged and Acquisition Finance, Mezzanine, Equity	0.2
Total	**61.0**

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

KfW IPEX-Bank GmbH key figures

	2012	2011
	EUR in billions	EUR in billions
Balance sheet key figures		
Total assets	46.3	46.4
Volume of lending	29.1	29.4
Contingent liabilities	2.1	2.2
Irrevocable loan commitments	5.9	5.5
Assets held in trust	23.0	22.6
Volume of business (total assets, contingent liabilities and irrevocable loan commitments)	54.3	54.2
Equity	3.1	2.6
Equity ratio (%)	6.7	5.6
Results	**EUR in millions**	**EUR in millions**
Operating income before risk provisions/valuations	264	258
Risk provisions and valuation	–244	–34
Net income	17	30
Result of the Export and Project Finance business area (segment report consolidated financial statements of the KfW Group)	298	623
Number of employees (including Management Board)	**558**	**531**

››› Responsible banking

As one of the world’s leading providers of export and project finance, we structure tailored loans for capital goods and services, economic and social infrastructure projects, and international environmental and climate protection projects. In this way, we help our German and European customers to compete and succeed in the global marketplace. We also work to secure growth and jobs, establish vital links in our globalised society, and preserve the living environment for future generations.

KfW IPEX-Bank

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››› Our aim is to ensure and to develop the ability of German and European export companies to compete on the international stage.

Dear Readers

For KfW IPEX-Bank, and for many of our customers, 2012 was a challenging year. The global economy lost momentum due to weak growth in the industrialised nations over the course of the year, while developing and emerging countries – key markets for the German export industry – grew less dynamically than in previous years, and financing needs were faced with a shrinking supply of credit.

Yet it is precisely because of this persistently challenging environment that we have pushed ahead with our strategy of helping German and European export companies to compete in the global marketplace and supporting them in our role as an effective project and export financier.

Our active management of existing loans meant that we were able to work with our customers, where necessary, to develop solutions which created viable prospects for all parties. Above all, our extensive involvement in the maritime industries clearly demonstrates that this key sector of German industry can still look to us for reliable support.

Here, as in other areas, our long-term business approach of promoting sustainability offers a convincing example of how banks depend to a large extent on their responsibilities towards the real economy for their raison d'être.

For KfW IPEX-Bank, taking responsibility for the export industry also means playing an active role in further developing and improving conditions for foreign trade – for larger SMEs and major companies, and specifically also for medium-sized suppliers. With our in-depth knowledge of export finance and long-standing experience with export credit guarantees, we have established ourselves as a valued partner and adviser for policymakers and associations on matters relating to the promotion of foreign trade.

We provide particular support to projects and planned exports that have a positive impact on the environment and climate. As a pioneer amongst German banks in the field of sustainability, we introduced strict environmental and social guidelines for our finance products as early as 2000. Since 2008, KfW IPEX-Bank has been one of more than 70 international banks committed to the Equator Principles Financial Institutions (EPFI), which set out environmental and social standards for project finance.

We are proud that through our work we have been able to contribute not only to maintaining and consolidating German economic strength and employment, but also to improving ecological living conditions in the export target countries. Thanks to our employees' tremendous dedication and commitment, our long-term approach and a forward-looking risk policy, we were extraordinarily successful in achieving this mission in 2012.

Harald D. Zenke (Speaker)

Markus Scheer

››› For KfW IPEX-Bank, taking responsibility for the export industry does not simply mean providing effective and reliable financial support to corporations and to SMEs. This responsibility also involves playing an active role in improving the business environment for our export companies in order to meet future challenges.

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

KfW IPEX-Bank is also well positioned to meet the capital requirements under Basel III. We introduced measures to adjust the bank's capital structure in line with these requirements in 2011, and continued these measures in 2012.

The Export and Project Finance business area, for which KfW IPEX-Bank is responsible, achieved new commitments of EUR 13.4 billion in 2012 despite a difficult environment, which is around the same level as the previous year. The volume of financing in the Maritime Industries (EUR 2.5 billion), Power, Renewables and Water (EUR 2.1 billion) and Industries and Services (EUR 2.1 billion) business sectors made a particularly positive contribution to the overall result. Cruise ship financing and offshore industry investments accounted for a significant amount of commitments in the Maritime Industries business sector.

The operating result from KfW's Export and Project Finance business area, for which KfW IPEX-Bank is responsible, stood at EUR 646 million in 2012, slightly up year-on-year. The merchant shipping crisis led to higher charges against the valuation result than normal in the reporting year, which meant that the result from ordinary business activities came to EUR 307 million. The Export and Project Finance business area contributed EUR 298 million to KfW's consolidated earnings. This confirms its role as an important source of revenue for the KfW Group and allowed it to make an active contribution to securing KfW's long-term promotional capacity, despite adverse circumstances.

The merchant shipping crisis affected KfW IPEX-Bank GmbH to a relatively greater extent than the business area as a whole. KfW IPEX-Bank GmbH is a legally independent and separate reporting entity which focuses solely on market transactions in export and project finance. Although the operating result remained around the same level as the previous year, this was almost completely offset by the risk provisions which were required. As a result, only a small profit of EUR 20 million was reported for the 2012 financial year.

Christian K. Murach

Christiane Laibach

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

We plan to generate the same volume of new commitments in 2013 as in the previous year. As a result of our ongoing strategic process, we are planning to reinforce our marketing activities, develop our product portfolio and establish a greater presence in key foreign markets during this financial year, in order to build on KfW IPEX-Bank's involvement with existing and new customer groups. We will continue to focus on the German export industry's financing requirements along the way.

A vital prerequisite for all of this is the commitment, dedication, and tremendous level of expertise and experience of our employees – they are the bank's true capital. Ensuring the long-term retention of staff is set to become increasingly important in light of the demographic changes to come. Therefore, providing our employees with support and making the jobs we offer family-friendly represent key aspects of our human resources strategy. We also set great store by providing young employees with training and opportunities to gain qualifications. Our trainee programme offers a wide range of options to graduates of business-related courses.

Christiane Laibach **Christian K. Murach** **Markus Scheer** **Harald D. Zenke**
(Speaker)

Close cooperation within a new structure

Report of the Board of Supervisory Directors 2012

Various changes took place on our Board in the 2012 financial year. The Board of Supervisory Directors' first term came to an end in March, and it gained three KfW IPEX-Bank GmbH employee representatives in June due to the introduction of co-determination. The Board of Supervisory Directors regularly monitored and consulted with the Management Board regarding its management of the company during the reporting year. We were involved in decisions of major importance for the company and granted our approval to business transactions, where required, following extensive consultation and review. The 2012 financial year was also characterised by close cooperation with the Management Board. The Board of Supervisory Directors considers that it was consistently informed by the Management Board of all significant developments at KfW IPEX-Bank GmbH in a timely and comprehensive manner.

Meetings of the Board of Supervisory Directors

Five ordinary meetings of the Board of Supervisory Directors were held in the past financial year. In each of these, the Management Board reported on ongoing business developments, current issues and plans for new business, and also presented risk and performance reports and quarterly financial statements.

The first meeting of the Board of Supervisory Directors during the 2012 financial year took place on the morning of 19 March 2012. After considering the Audit Committee's report, we reviewed the financial statements for the previous financial year and resolved – subject to appointment as auditor by the shareholder – to award the audit assignment for the 2012 financial year to KPMG AG Wirtschaftsprüfungsgesellschaft. We also determined the scope of the audit. We approved the Report of the Board of Supervisory Directors and the Public Corporate Governance Report together with the Declaration of Compliance. In accordance with the Executive Committee's report, we recommended that the shareholder extend Ms Laibach's Management Board contract by a further five years and approve the performance-related bonus to be paid to the Management Board for the past financial year, based on the overall achievement of targets. As requested during the last meeting of the Board of Supervisory Directors in 2011, we acknowledged the revised individual targets contained in Ms Laibach's and Mr Zenke's target agreements. We also passed an anticipatory resolution to expand KfW IPEX-Bank GmbH's ongoing deposits business with non-banks. We took note of the feedback from the review of the Board of Supervisory Directors' efficiency and resolved – in view of the overall positive outcome – to carry out a self-assessment only once every two years in the future. We also acknowledged the conceptual approach of KfW IPEX-Bank GmbH's Special Asset Groups, which we discussed using the example of the shipping portfolio, and took note of the Loan Committee's report.

The general shareholders' meeting approved the activities of the Board of Supervisory Directors for the 2011 financial year during the early afternoon of 19 March 2012. This concluded the incumbent Board of Supervisory Directors' term of office, and all existing members were reappointed as members of the company's Board of Supervisory Directors. The Chairman of the Board of Supervisory Directors, Dr Kloppenburg, was reappointed to this position during the constituent meeting of the newly appointed Board of Supervisory Directors held immediately afterwards. Committee members, their representatives and the chairpersons of the committees were then appointed by the Board of Supervisory Directors.

As the company workforce now exceeds 500 employees on a permanent basis, KfW IPEX-Bank GmbH's Articles of Association were brought into line with the requirements of the German One-Third Participation Act *(Drittelbeteiligungsgesetz)*, and a co-determined Board of Supervisory Directors was introduced at a general shareholders' meeting held on 8 May 2012. This brought the term in office of the Board formed on 19 March 2012 to an end.

The co-determined Board of Supervisory Directors came together for the first time at a meeting held on 5 July 2012. Since then, the Board has consisted of six shareholder representatives, who were appointed during the general shareholders' meeting on 8 May 2012, and three employee members, who were elected by KfW IPEX-Bank GmbH's workforce with effect from 13 June 2012. During this meeting, Dr Kloppenburg was appointed as Chairman and Mr Loewen as Deputy Chairman of the Board of Supervisory Directors, and the committee members, their representatives and chairpersons of the committees were appointed by the Board of Supervisory Directors. We were informed of the amendment to the Articles of Association arising from the introduction of a co-determined Board of Supervisory Directors, and presented the Rules of Procedure for the Board of Supervisory Directors, which had been amended in June by means of circulation, to the new members. These were approved accordingly. After debating and acknowledging the Management Board's extensive report, we discussed the current status of the Railpool strategic investment and the ongoing sale process. We were then informed of developments in the Basic Industries sector and the company's offshore activities, and acknowledged the Compliance Report for the 2011 financial year, together with the Loan Committee's report.

At the meeting held on 28 September 2012, we dealt with the strategic process in addition to the business performance and the revenue and risk situation, which are discussed regularly. The company's strategic focus was discussed in depth, and a recommendation was made to the Management Board to incorporate the business strategy into the annual planning process and validate this regularly. We also debated the strategic reorientation of the London branch which had been presented to us and recommended that the Management Board implement this project. In accordance with the report from the Audit and Loan Committees, we agreed to arrange an external review of the Management Board target system by the next meeting.

At the meeting held on 23 November 2012, we looked at current business performance and the risk and revenue situation, including key aspects of the risk strategy. We then discussed the outcome of the work on the 2013 group business area planning. We recommended that the shareholder approve this as an annual plan. Following on from the points raised in the Executive Committee's report, we discussed personnel matters and adjustments to the system for future target agreements with the Management Board from the 2013 financial year onwards. We were then provided with extensive information about the submarine cable project in Norway. Following in-depth debate, we approved the sale of our strategic investment in Railpool GmbH and Railpool GmbH & Co. KG, subject to achieving a specific purchase price. After hearing the reports from the Audit and Loan Committees, details of KfW IPEX-Bank GmbH's remuneration system were presented to us, and we were given an overview of current regulatory developments. We also passed a resolution on the bank's borrowing for the 2013 financial year, and were informed of service level agreements with KfW and current D&O insurance developments.

Changes to the Board of Supervisory Directors

There were various personnel changes on the Board of Supervisory Directors during the reporting year. State Secretary Homann left the Board of Supervisory Directors with effect from 29 February 2012, and his successor, State Secretary Herkes, took up office with effect from 16 March 2012. Mr Stupperich stepped down from the Board of Supervisory Directors as of 8 May 2012. His successor was Ms Kollmann, who joined with effect from 15 May 2012. The Board of Supervisory Directors would like to thank these former members for their commitment and dedicated work. The Board gained three employee representatives as a result of the introduction of one-third co-determination for the Board of Supervisory Directors. KfW IPEX-Bank GmbH's employees elected Dr Marschhausen, Mr Goretzki and Mr Jacobs to the Board with effect from 13 June 2012.

Work in the committees of the Board of Supervisory Directors

The Executive Committee, Loan Committee and Audit Committee fulfilled their designated tasks during the financial year in line with the rules and regulations of KfW IPEX-Bank GmbH. The Board of Supervisory Directors was regularly informed of the work of these committees.
There were no conflicts of interest in the voting process of the Board of Supervisory Directors and its committees during the reporting year.

In-depth discussion of the annual audit

The Audit Committee discussed and approved the results of the audit of the annual financial statements at its meetings on 25 January and 27 March 2013. It recommended that the Board of Supervisory Directors approve the annual financial statements and management report. The discussion centred on the audit report of KPMG Wirtschaftsprüfungsgesellschaft (partial audit report II), covering the audit of the annual financial statements as at 31 December 2012 that were prepared by the Management Board as at 26 February 2013, and the management report for the 2012 financial year. KPMG issued an unqualified audit opinion on 11 March 2013.

Following a final review by the Board of Supervisory Directors, we approved the result of the audit, the annual financial statements and the management report at our first ordinary meeting on 27 March 2013. We recommended that the general shareholders' meeting approve the annual financial statements.

The Board of Supervisory Directors endorses the Management Board's recommendation to allocate net profit for the year of EUR 17.0 million to retained earnings.

We would like to thank the Management Board and all employees for their commitment and hard work during the 2012 financial year.

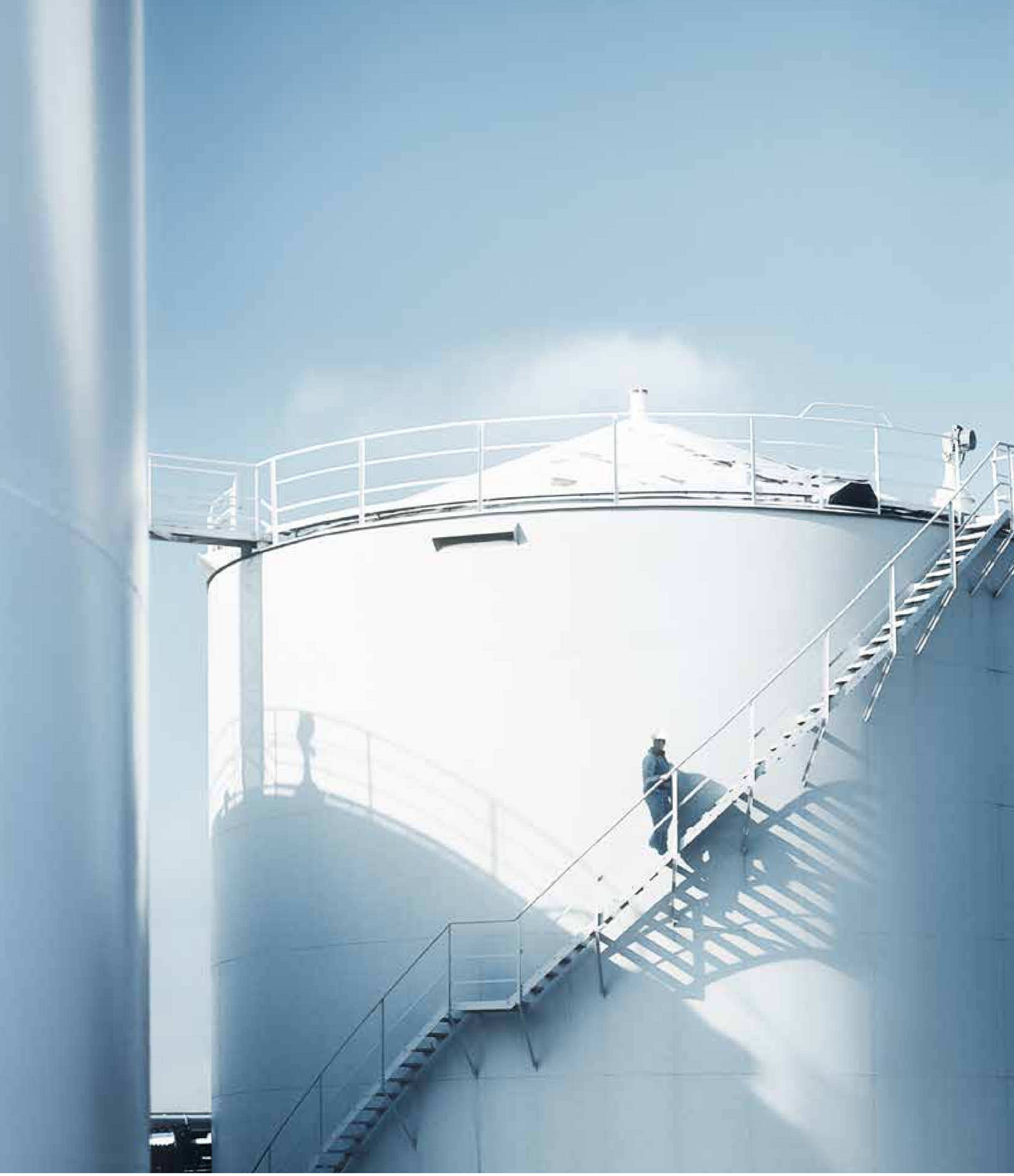
Frankfurt am Main, 27 March 2013
On behalf of the Board of Supervisory Directors

Dr Norbert Kloppenburg
Chairman

››› Opportunities for advancement
Rising global demand for refined products.

2-billion-dollar loan for Reliance Industries Ltd, India

As one of the world's leading export and project financiers, KfW IPEX-Bank is working with a number of banks to provide an ECA-backed (export credit agency) loan of USD 2 billion to the Indian petrochemicals group Reliance Industries Limited. The



state-of-the-art equipment supplied will not only help the country's largest private-sector company to expand production simultaneously at four of its sites, but will also support more than 40 medium-sized export companies in Germany. The transaction is one of the largest company financing projects ever carried out with Hermes cover.

A leader in export and project finance

By helping German and European export companies to compete in the global marketplace, we are securing economic strength and employment in both Germany and Europe for the long term.

KfW IPEX-Bank's stated aim is to ensure and to develop German and European export companies' ability to compete on the international stage. As one of the world's leading providers of export and project finance, we structure tailored loans for pioneering investment activities in innovative key industries, economic and social infrastructure projects, and international environmental and climate protection projects. In this way, we secure local growth and jobs, help to establish vital links in our globalised society, and preserve the living environment for future generations.

Exports secure growth and jobs

The export industry accounts for around one in every four jobs and half of total economic output in Germany. Without the international activities and global integration of many companies – from large corporations to medium-sized companies – the high level of prosperity and employment in our society would not be secure in the long term. According to figures from the German Federal Statistical Office *(Statistisches Bundesamt)* and the Federation of German Wholesale, Foreign Trade and Services *(Bundesverband Großhandel, Außenhandel, Dienstleistungen – BGA)*, gross domestic product grew by just 0.7 % in 2012, whereas exports of German goods and services increased by just over 4 % year-on-year.

The strength of KfW IPEX-Bank lies in its bespoke project and export finance for major companies and larger SMEs, based on its expertise in specific sectors and its skill in structuring products.

Around half of all German exports go to Europe, while the remaining 50 % goes (in descending order of export volume) to Asia, America, Africa, and Australia and Oceania. Rising exports to dynamically growing parts of the world successfully offset declining exports to the euro area, which continued to have an impact in 2012. According to a study carried out by the Association of German Chambers of Industry and Commerce *(Deutscher Industrie- und Handelskammertag – DIHK)*, export companies are showing a growing interest in less well-known markets and are increasingly diversifying their target markets.

Exploiting opportunities offered by globalisation

Market experts believe that this also offers the biggest potential for the future. The slight recovery of the world economy expected in 2013 will be driven primarily by developing and emerging countries, whereas only limited growth is anticipated amongst industrialised nations. These industrialised nations also present the greatest risk to the global economy, due to the crisis in the euro area and to sovereign debt in Japan.

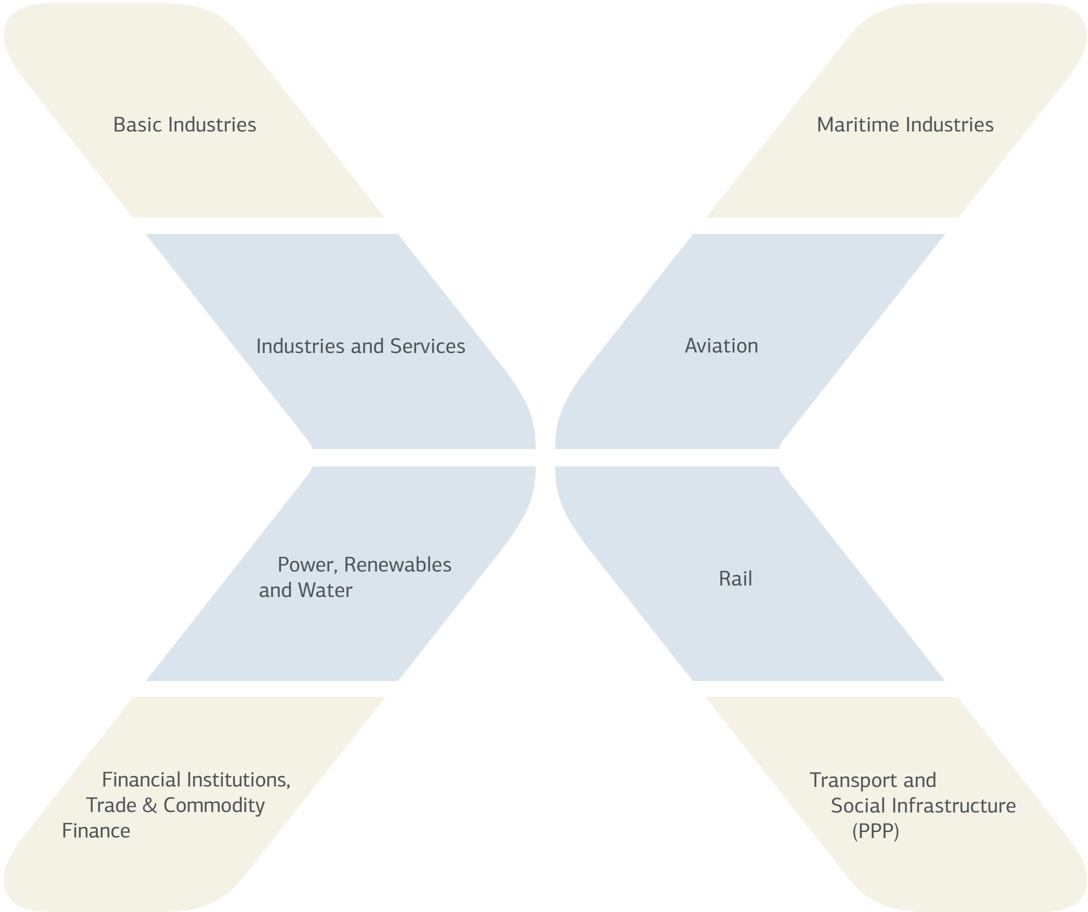
Reliable finance means risks can be quantified

In the face of ever-advancing globalisation, companies must focus fully on the quality and performance of the goods and services they offer in order to maintain and build on the market position they have achieved. As an effective and reliable financing partner, KfW IPEX-Bank helps the export industry to make risks associated with the global trade in goods and services quantifiable.

Our aim is to make German and European export companies more competitive on a sustainable basis by providing them with medium-term and long-term loans, thereby creating the best possible conditions for these companies to develop their full potential. In order to do this, we provide tailored export and project finance, mostly in the form of individually structured buyer loans, which are covered where necessary by export credit guarantees provided by the Federal Republic of Germany or by other countries. We structure investment and acquisition financing and also offer lease finance and bank guarantees, as well as short-term trade finance instruments such as forfaiting of letters of credit.

Effective project and export finance by focusing on strategic sectors

As a specialist financier, KfW IPEX-Bank concentrates on key industrial sectors together with the areas of energy, environment, raw materials, transport and infrastructure. Expertise in specific sectors ensures a vital edge for German and European export companies competing in the global marketplace.



Bank with a strong performance and a statutory mission

Our mission – to support and strengthen the German and European economy on a sustainable basis against the backdrop of advancing globalisation – is derived from the statutory mission of the KfW Group. As a legally independent group company that is responsible for the Export and Project Finance business area of the KfW Group. KfW IPEX-Bank combines the strength of a successful commercial bank with the values of a development institution – values which involve a commitment to sustainability and corporate social responsibility.

Actively supporting the export capacity of SMEs

Germany's remarkable economic and export output – even during a sovereign debt and currency crisis – is often associated with its productive and innovative SME sector. This accounts for around 3 million companies, which employ up to 500 staff each and contribute almost

KfW IPEX-Bank provides particular support for export and finance projects that have a positive impact on the environment and climate. In this way, it promotes the preservation of our living environment.

As an export finance expert, KfW IPEX-Bank is also a sought-after partner for policymakers, such as in matters relating to the promotion of foreign trade and marketing Germany's mechanisms for boosting exports.

52 % to total economic output. In particular, the foreign revenue of German SMEs has been growing continuously for years and, after seeing growth of around 30 % since 2000, is now approaching the 200-billion mark. SMEs generate around 19 % of the total export revenue of German companies.

KfW IPEX-Bank also takes particular responsibility for developing and implementing export finance strategies specifically targeted at SMEs. This includes its cooperation with Northstar Europe, which is based in Luxembourg and specialises in international trade finance for SMEs. This cooperation allows KfW IPEX-Bank to provide medium-term financing solutions of up to EUR 5 million for smaller export transactions.

Using innovation specifically to boost competitiveness

The delivery of state-of-the-art technology for the construction of a new thermal waste recovery plant in Plymouth in south-west England is a prime example of an export project involving SMEs. German companies are supplying essential components for this project. Baumgarte Boiler Systems, based in Duisburg, is supplying the boiler, the flue gas cleaning equipment is being supplied by LAB, based in Stuttgart, the Hamburg-based service provider Imtech is supplying the energy and building technology, and Landshut's SAR Electronic the industrial and process automation. The total investment volume for the plant engineering equipment financed by KfW IPEX-Bank together with Sweden's Svenska Handelsbanken is approximately EUR 250 million.

The South West Devon Waste Partnership (SWDWP) has commissioned Mannheim-based MVV Umwelt, a subsidiary of MVV Energie AG, also based in Mannheim, to undertake the planning, building and operation of the new plant for a period of 25 years. MVV Energie AG is one of Germany's leading regional and municipal energy companies, specialising in renewable energy, district heating, energy efficiency and thermal waste recovery.
KfW IPEX-Bank and the MVV Energie Group have a long history of working together.

››› Our aim is to use tailored financing to maintain and to develop the ability of German and European companies to compete on the international stage.

Markus Scheer

The innovative, highly energy-efficient technology supplied by German companies will ensure low emissions and environmentally friendly waste recovery. A combined heat and power process will generate electricity and heat to be used in South West Devon.

This thermal waste recovery plant is being constructed as part of a public-private partnership (PPP) and will help to implement key EU environmental directives. Greater investment is required in the waste and recycling sector in order for the United Kingdom to meet the EU's long-term environmental targets.

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Responsibility for conditions in our export industry
For KfW IPEX-Bank, taking responsibility for the export industry does not simply mean acting as an effective and reliable financier which supports major corporations and larger SMEs. It also means playing an active role in developing and improving conditions for our export companies in order to meet future challenges.

With its in-depth knowledge of export finance and many years' experience with export credit guarantees, KfW IPEX-Bank has established itself as a competent and sought-after partner and adviser for ministries and parliamentary committees. KfW IPEX-Bank is also a popular communication forum for companies, associations and ministries in matters relating to securing and expanding the German economy's position in global competition.

The bank also plays an advisory role in political projects and decision-making processes relating to the promotion of foreign trade. For example, it lent its support during the planning process for a submarine power cable to be laid in the North Sea, which will be used in the future to transport environmentally friendly hydropower from Norway to Germany, and surplus wind and solar energy from Germany to Norway. The cable is designed for a capacity of 1,400 megawatts, which is approximately equivalent to the output of a large nuclear power plant. This will cover over 3 % of the energy balancing requirement expected as part of Germany's transition to renewable energies by 2050. KfW IPEX-Bank's structuring expertise has played a vital role in making the risks involved in this pioneering government project quantifiable and enabling finance to be obtained for this major project.

Ensuring a reliable supply of raw materials to the German economy also poses a particular challenge. Due to shortages of industrial and mineral resources in particular, these raw materials are essential in enabling German and European companies to compete effectively on the global market.

According to the report on raw materials published by the German Federal Institute for Geosciences and Natural Resources *(Bundesanstalt für Geowissenschaften und Rohstoffe – BGR),* Germany's raw materials requirement stood at almost EUR 170 billion in 2011, over EUR 135 billion of which could only be supplied through imports. As a result, financings aimed at securing the supply of raw materials are an integral part of KfW IPEX-Bank's loan portfolio.

››› The wind of change
Worldwide spirit of optimism surrounding renewable energy.

Success story – Construction of sixth wind farm in Taiwan

Growth in Asia has led to a rising need for reliable energy supplies. This represents an opportunity for German exporters and the environment alike – especially if it involves renewable forms of energy. KfW IPEX-Bank is continuing the success story achieved so far with the five wind farms and 143 wind turbines

built since 2005 by financing an additional 23 turbines. This loan, which is secured by an export guarantee of the Federal Republic, will allow the two initiators of the project, infraVest and wpd, as well as the technology supplier Enercon, to concentrate fully on their strengths – planning and constructing efficient systems in order to generate renewable energy, such as here in Tongyuan on the western coast of Taiwan, around 120 km southwest of the capital Taipei.

Promising technologies in the field of renewable energies and energy efficiency deserve support so that they can compete and succeed on the global market.

Ambitious climate protection targets

Global climate protection was a major topic of discussion at the UN Climate Change Conference held in Doha, the capital city of the Arab emirate of Qatar, where parties to the UN Framework Convention on Climate Change met from 26 November to 8 December 2012. However, after starting out amid great expectations and huge public interest, the conference had to be extended by an extra day in order for tangible progress to be made. There were emerging signs of willingness to make further progress in promoting international environmental and climate protection.

The Doha conference came to a minimum consensus on a second commitment period for the Kyoto Protocol and a work programme for the climate treaty to be negotiated by 2015. However, the Kyoto resolutions cover less than 15 % of global emissions, a small share of the total volume. The outcome of the UN Climate Change Conference in Doha clearly shows that even public-sector projects launched under great political pressure are not enough to drive international climate protection forward with the required rigour and effectiveness. In fact this calls for stand-alone initiatives implemented by business and society.

Sustainability criteria firmly rooted in our core business

As a leading project and export financier and part of the KfW Group, KfW IPEX-Bank has a particular responsibility to preserve our society's living environment in the long term. We systematically use our position to evoke and support developments aimed at ensuring that our globalised society is well placed for the future.

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Awards for outstanding finance projects

The “Deal of the Year” awards KfW IPEX-Bank has received for its financing transactions – presented annually by leading specialist publications – are a testament to the bank's outstanding performance in structuring complex project and export finance, also in international comparison.

The international publication Project Finance Magazine awarded no fewer than seven trophies to KfW IPEX-Bank in 2012. They include the award in the “European Offshore Wind Deal of the Year” category for its project to finance Northwind, Belgium's offshore wind farm.

Construction is set to commence in spring 2013 over an area covering almost 15 km^2, located around 35 km off the Belgian North Sea coast, with completion scheduled for mid-2014. The wind farm will generate 216 megawatts of energy, or around 1 % of Belgium's total electricity consumption. This will therefore make an important contribution to meeting European climate protection targets.

The jury named KfW IPEX-Bank's project to finance the widening of the N33 between the Dutch cities of Assen and Zuidbroek “European Availability Deal of the Year”. Widening this busy route will primarily improve safety and make it easier to reach the region south of Groningen. There are plans to connect this route to the A28 at the southwest end of the widened section. The A28 runs between Utrecht and Groningen and is the main route linking the north and west of the Netherlands. The northeast end joins up with the A7 near Zuidbroek, the Dutch section of European route E22.

The prestigious Trade Finance Magazine presented a further four “Deal of the Year” awards to KfW IPEX-Bank. They included the consortium financing of German equipment exports to Reliance Industries in India and the finance it provided for a major mining expansion project in Australia.

ProjectFinance Deals of the Year 2012

2012 TRADE FINANCE Deal of the Year

To this end, we finance ambitious infrastructure projects and investments in new technologies. Measures such as our strict environmental and social guidelines ensure that the projects we finance are implemented in a manner that is environmentally sound and socially acceptable. By making this voluntary commitment, we became one of the first banks in Germany to set sustainability standards for its core business back in 2000.

Lending conditions ensure high social standards

KfW IPEX-Bank is bound by the Equator Principles, an extended code of internationally recognised environmental and social standards to be observed by banks when providing project finance. The bank uses these as a basis when evaluating project and export finance. We also advocate transparency in the flow of funds involved in the extraction of raw materials within the context of the Extractive Industries Transparency Initiative (EITI). In this way, we protect populations in affected countries from corruption, while also helping to modernise and boost prosperity in the countries in which our investments are made.

Investment in environmentally friendly transport systems

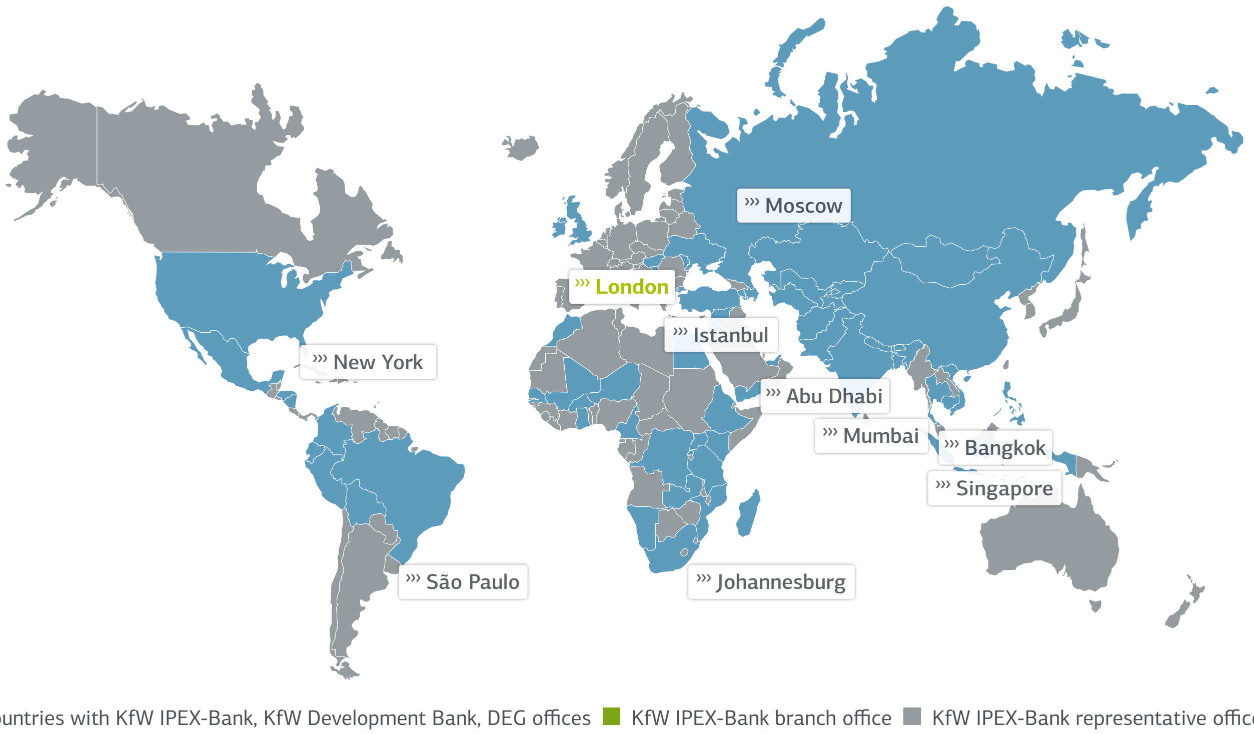
Apart from major international renewable energy projects and projects serving to increase energy efficiency, KfW IPEX-Bank is also a highly regarded and reliable financing partner in projects aimed at improving environmental and climate protection on its own doorstep. For example, it is involved with Vogtlandbahn based in Neumark in Saxony, which has run the Vogtland rail network along the borders between Bavaria, Saxony and Thuringia and across the national border into the Czech Republic since 2010.

Here, KfW IPEX-Bank financed the purchase of eight RegioShuttle RS1 diesel railcars for Regentalbahn AG, to be operated in the Vogtland network. These state-of-the-art railcars, which are very smooth-running and feature a large low-floor area, have been operated on the

We finance environmental and climate protection projects not only because they help to preserve the living environment in the long term, but also because they make good economic sense.

Efficient relationship bank with a global network

As one of the top project and export financiers, KfW IPEX-Bank supports its customers throughout all project stages as well as to the investment locations.



route between Zwickau city centre and Kraslice in the Czech Republic and between Zwickau central station and the Bavarian city of Hof since the new timetable was introduced in December 2012.

According to experts, rail is one of the most environmentally friendly forms of transport both in the freight and passenger segment, performing much better than road and air transport in all key environmental areas. According to the German Railway Industry Association *(Verband der Bahnindustrie in Deutschland – VDB)*, the transport sector in Germany accounts for one fifth of greenhouse gas emissions, whereas just 1 % of all greenhouse gases produced in Germany are due to rail transport.

Targeted promotion of innovative drive systems

KfW IPEX-Bank is financing the development of innovative drive systems to improve energy efficiency in areas where energy-intensive modes of transport are unavoidable. For example, it has provided EUR 50 million to help finance a four-year research project carried out by Tognum AG, a leading supplier of engines and drive systems for off-highway applications and distributed power generation systems.

The aim is to improve the fuel efficiency of diesel engines on ships, locomotives and land vehicles, and therefore to reduce emissions of CO_2, NO_x and fine particulates. The new engines are also expected to meet future, extremely strict European and US emission regulations for construction and industrial equipment as well as standardisation requirements in the marine and offshore sectors. KfW IPEX-Bank's loan will supplement the funds Tognum itself and the European Investment Bank (EIB) have provided for the project.

KfW IPEX-Bank has provided another EUR 50 million investment loan to help automotive parts supplier GETRAG FORD Transmissions modernise its Cologne production site, where manufacturing activities will switch from conventional 5-speed gearboxes to modern, efficient 6-speed gearboxes. These will lead to noticeable fuel savings, and therefore a reduction in CO_2 emissions, particularly at higher speeds.

As a pioneer in the field of sustainability, entrepreneurship and corporate social responsibility have been inextricably linked parts of our core business for many years now.

››› Our knowledge of the market and business sector allows us to take advantage of new developments at an early stage and to develop financing solutions which German companies can then use to demonstrate their leadership in innovation.

Christiane Laibach

Environmental and climate protection from the outset

Energy efficiency can also be improved during the production and manufacturing process itself. KfW IPEX-Bank is therefore providing a total of EUR 130 million to finance two highly energy-efficient and powerful servo press lines in Baden-Württemberg and Thuringia for motor vehicle manufacturer BMW. The state-of-the-art servo motors will lead to a substantial reduction in energy used for each component during the metal forming process, while cutting down on noise emissions and saving hydraulic oil. Funds from KfW's ERP Environmental and Energy Efficiency Programme were also included as this investment meets demanding sustainability criteria.

Our strict sustainability criteria ensure that the projects we finance are implemented in a manner that is environmentally sound and socially acceptable.

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Effective financing promotes sustainability

KfW IPEX-Bank is one of the world's major financiers of investment in renewable energies and is a pioneer amongst German banks in the field of sustainability. Two years before Germany's national sustainability strategy was enacted in 2002, KfW IPEX-Bank was one of the first banks in the country to introduce demanding environmental and social guidelines for its financings.

In the context of these environmental and social guidelines, KfW IPEX-Bank assigns every project it finances to one of three categories, A, B or C, as part of its lending process. Category C comprises projects with negligible or no negative impact on the environment or society. Additional assessments are required for category A and B projects, such as raw material projects and thermal power plants, and these are carried out by specialists within the Group. KfW IPEX-Bank will then only grant finance if the World Bank's internationally accepted and demanding environmental and social standards are adhered to, if necessary with additional requirements.

KfW IPEX-Bank has been a so-called Equator Bank since 2008. Together with over 70 other international banks, it adheres to an extensive set of regulations prescribed by the Equator Principles Financial Institutions (EPFI) in order to meet environmental and social standards when financing projects. This includes compliance with International Finance Corporation (IFC) Performance Standards and the World Bank Group's Environmental, Health, and Safety Guidelines (EHS).

KfW IPEX-Bank also supports the Extractive Industries Transparency Initiative (EITI) in its work with raw material extraction projects. This is a voluntary association consisting of stakeholders from government, business and society, which also receives political and financial support from the German Federal Government. This initiative aims to ensure that income from exploration projects in developing and emerging countries with rich reserves of raw materials goes to these countries' governments, thereby improving the entire population's economic situation and local living conditions.

As one of the world's largest ship financing banks, KfW IPEX-Bank also performed the first-ever energy efficiency evaluation of its shipping portfolio in 2012 on the basis of the Energy Efficiency Design Index (EEDI), in collaboration with FutureShip, a subsidiary of Germanischer Lloyd. The study found that KfW IPEX-Bank's merchant shipping portfolio performs better than the world fleet. In the future, this newly developed assessment method will allow the bank to take a ship's energy efficiency into account when making its financing decision, which will ensure that "green" ships are favoured over similar ships with poorer energy efficiency. The study also showed that the credit risk associated with energy-efficient ships is lower, proving that environmental benchmarks can also have economic benefits.

››› Green light

High-quality loans get major projects up and running.

Construction of new metro route relieves traffic situation in Istanbul

KfW IPEX-Bank is financing the construction of a new metro route from Üsküdar to Çekmeköy via Ümraniye on the Anatolian side of the Bosphorus, which is scheduled to begin running in 2015. This will make a significant contribution towards expanding the metro system in this busy metropolis. Suburban trains

and buses run from Üsküdar, which is located at the western end of the new 17-km M6 line, allowing passengers to travel directly from the city's Asian districts to the European side of Istanbul. This will be of particular benefit to many commuters. KfW IPEX-Bank is providing approximately EUR 32 million, which are earmarked for the supply of key components from Germany and Europe. These parts will be supplied by manufacturers including Bombardier Transportation based in Berlin, which will provide signalling equipment for the new route.

Increasing digitalisation requires efficient and secure data infrastructure. Our financing projects are targeted at helping to expand this infrastructure.

Modern infrastructure connects people and ensures quality of life

Efficient and environmentally friendly infrastructure which facilitates the flow of goods, services and data worldwide forms the backbone of our globalised world and is essential in securing economic growth, employment and quality of life. The goods transport and logistics industries represent the third-largest economic sector in Germany, generating annual revenue of over EUR 200 billion. They employ more than 2.8 million people, making them a key future growth market.

KfW IPEX-Bank has been successfully providing finance for almost 60 years to help develop, expand and maintain economic infrastructure such as road, rail, energy and data networks, as well as social infrastructure, for example through the construction of hospitals, schools and administrative buildings, and investments in the modernisation of water supply systems. As one of the world's largest ship financiers, we support the expansion of maritime infrastructure, which is essential in international trade. We are also a leading aircraft financier, for instance we finance exports by Airbus, Europe's largest commercial aircraft manufacturer. Our customers include more than 100 scheduled passenger, cargo and charter airlines, as well as aircraft manufacturers and leasing companies, which we support with our deep-rooted experience in structuring challenging aircraft finance projects and hedging industry-specific risks.

Mobility improves development opportunities

A specific example is the financing provided by KfW IPEX-Bank to expand Vietnam Airlines' fleet. This will help to improve mobility and development opportunities in this fast-growing south-east Asian economy. Huge distances between major cities and an as yet under-developed road and rail network mean that Vietnam is reliant on air transport, particularly on longer routes. Together with other banks, KfW IPEX-Bank is financing ten A321-200 airplanes for Vietnam Aircraft Leasing Joint Stock Company, which will lease the planes exclusively to state-owned Vietnam Airlines. These medium-haul aircraft will be largely manufactured in Germany.

Given that worldwide air traffic continues to soar, KfW IPEX-Bank takes particular care to ensure that it finances modern aircraft with low fuel consumption. Infrastructure not only creates vital links – by focusing on energy-efficient mobility, it can also make a growing contribution to environmental and climate protection.

Effective financing for secure cloud systems

In addition to efficient and well-developed transport infrastructure, secure and reliable information and communications technology has since become an indispensable part of our everyday private and professional lives. Experts believe that half of all companies in Germany would

››› Investment in infrastructure and transport is currently proving a major challenge for many economies, and not just in Europe. We are making a forward-looking contribution to growth and prosperity through our financing projects.

Christian K. Murach

only be able to survive for a very short period of time without a working internet connection. Therefore, failures in IT infrastructure are seen as a real risk to our economy and society. The Cyber Security Strategy for Germany introduced by the German Federal Government in February 2011 also highlights the need to ensure effective protection of IT systems.

KfW IPEX-Bank is making a significant contribution to developing and upgrading secure IT infrastructure by financing the expansion of cloud systems. Part of this involves financing Germany's largest data centre in Biere near Magdeburg. T-Systems is building another data centre here on an area spanning 150,000 m^2, which is equivalent to around 30 football pitches. This is due to be completed by 2014 and, together with the data centre already in operation in Magdeburg, will form a “TwinCore”. Both data centres will together ensure that applications and customer data always run through two data centres simultaneously. This will guarantee a top level of data security and resilience, which will in turn maximise the availability of users' confidential data.

By providing finance targeted at energy-efficient transport systems, KfW IPEX-Bank is also contributing to environmental and climate protection in the infrastructure sector.

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Responsibility for customers and projects

With our many years' experience and in-depth industry expertise, we create the best possible conditions to ensure the success of the projects that we finance, and see to it that these projects do not harbour any unquantifiable risks for the companies involved. Often, it is only when they receive financing from us that companies with ground-breaking technologies, high-quality products and innovative services are able to compete and succeed in the global marketplace.

As an efficient project and export financier, we have a responsibility to sustainably build on this expertise and consistently tailor it to meet future challenges. We do this by continuously developing our product portfolio to bring it in line with market needs, and by consistently supporting our employees in their demanding roles. Offering a wide range of training opportunities and a forward-looking human resources policy is the best way for the bank to recruit and retain well-trained and motivated staff – who will in turn impress customers with their expertise, service-minded approach and professionalism.

A sense of responsibility towards customers and projects does not simply mean offering loans. Our financing is bound by strict requirements and, after extensive checks and weighing up all risks, is structured to make it tenable in the long term – which is ultimately for the benefit of the borrower, too. This means our customers can rely on us to support them throughout all stages of a project – even if the investment runs into difficulty and we need to work together to find viable solutions to keep the entrepreneurial vision alive.

››› Business development

Strong partner in global competition

International project and export finance secures jobs and growth
Within the KfW Group, KfW IPEX-Bank is responsible for international export and project finance – a task derived from KfW's statutory mission. It provides bespoke finance to support its customers in industrialised and emerging countries and also helps to strengthen and expand German export companies' position in global markets. This secures economic strength and employment in Germany and Europe. Our industry expertise, skill in structuring finance and individually tailored products enable us to fulfil this responsibility. We have therefore become a firmly established partner to major corporations and medium-sized producers and suppliers throughout Germany and Europe during the 60 years we have been present on the market.

Our business activities focus on providing medium-term and long-term financing to support the export industry, granting loans for environmental and climate protection projects, and financing transport and infrastructure projects as well as projects to secure Germany's supply of raw materials.

Reliable credit supply despite difficult environment
The global economy lost momentum over the course of 2012. Economic development in the euro area was hampered by the ongoing uncertainty among consumers, companies and capital market participants caused by the euro crisis, as well as the fiscal consolidation policies pursued by many euro area countries. Consequently, economic output in the euro area declined by 0.5 % in real terms in 2012 compared to the previous year. However, according to the estimate of the German Federal Statistical Office *(Statistisches Bundesamt)* released in February, German GDP grew by 0.7 % during the same period, but remained significantly down on 2011 (+3.0 %) and fell noticeably short of the growth-rate trend experienced since reunification. Nevertheless, having achieved this level of growth against the backdrop of the euro area crisis, Germany is in a good position internationally.

Overall, worldwide demand for capital goods from German and European manufacturers remained stable in 2012. This was due in particular to developing and emerging countries, which continued to drive the world economy, albeit with weakening momentum.

Financing conditions were such that only a limited supply of financing was available to meet funding requirements, and this is still the case. Restrictions imposed on the supply of financing available from European banks were the result of the financial and sovereign debt crisis, balance sheet clean-ups and the future Basel III regulations. However, some of this was offset by non-European banks and capital market products.

Long-standing partnerships consolidate our market position
Against the backdrop of this market environment, KfW IPEX-Bank consolidated its position as a reliable partner to the German and European export industry and as a financing partner for investment in infrastructure and transport, projects in the environmental and climate protection sectors and projects targeting Germany's supply of raw materials.

KfW IPEX-Bank continues to build on its industry and structuring know-how. In 2012, it supported existing customers in their new projects and actively generated business with new customers. During 2012, the bank increased the volume of new commitments from the original credit business in the Export and Project Finance business area to a total of EUR 12.9 billion – an increase of EUR 1.4 billion over the previous year. In addition, new commitments totalling EUR 0.5 billion were provided to refinance banks under CIRR ship financing. Of these total commitments, EUR 7.2 billion constituted KfW IPEX-Bank's market business, and EUR 5.7 billion was trust business performed on behalf of and for the account of KfW.

Proven expertise in key industries

KfW IPEX-Bank's financial experts possess profound industry and market expertise in key economic sectors. These include basic industries, automotive and plant engineering, retail, pharmaceuticals, specialty chemicals, health and telecommunications, but also energy and the environment. In the area of transport and infrastructure, the bank's business activities focus on the maritime industries, rail, aviation, and transport and social infrastructure sectors. KfW IPEX-Bank is one of the world's leading providers of finance, especially for ships, rail vehicles, aircraft, energy projects and basic industries.

The Maritime Industries (EUR 2.5 billion), Power, Renewables and Water (EUR 2.1 billion) and Industries and Services (EUR 2.1 billion) business sectors made a particular contribution to the new business volume in 2012. Cruise ship financing and investments in the offshore industry accounted for a significant share of commitments in the Maritime Industries business sector. However, we were also pleased with the level of growth seen in the bank's other business sectors in the reporting year. KfW IPEX-Bank's business model, which focuses on the German economy's key industries, has therefore proven its full worth.

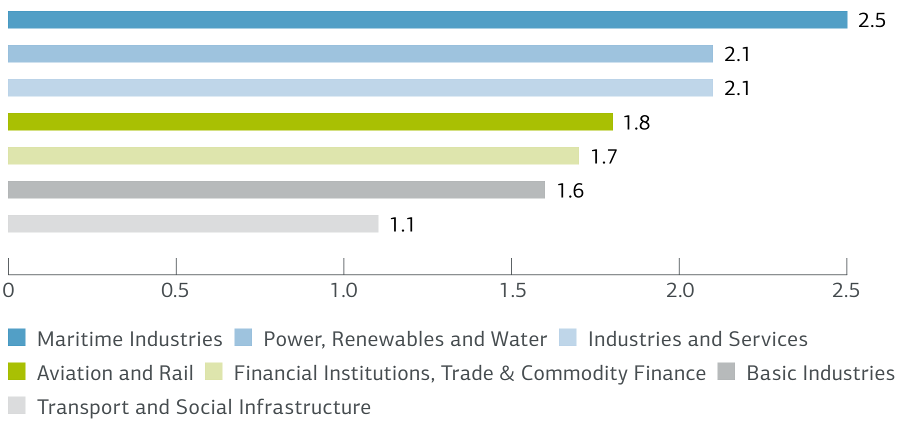
Global presence in the export industry's target markets

There is high international demand for products from Europe, and Germany in particular. KfW IPEX-Bank supports its customers and their projects throughout the world in order to market domestic goods and services, generate orders, boost production and create value. In this process, it focuses in particular on growth markets in developing and emerging countries that are important to the German and European economy – both in terms of exports and direct investment.

In 2012, Germany accounted for 26 % (EUR 3.4 billion) of new loan commitments, 38 % went to the rest of Europe (EUR 4.9 billion) and countries outside Europe accounted for 36 % (EUR 4.6 billion). The share of new business in emerging markets has now risen to 29 %, which clearly emphasises just how important these are to the export industry.

The bank's presence in relevant international target markets for the German and European export industry is important when tapping into these markets. Extensive knowledge of regional market conditions and long-standing experience in structuring complex export and investment projects enable KfW IPEX-Bank to become involved in countries where it is

New commitments by business sector (figures in EUR billions)[1)]
Total: EUR 12.9 billion[2)]



[1)] Excluding bank refinancing from CIRR ship financing
[2)] Differences in the total due to rounding

difficult to access finance. To this end, KfW IPEX-Bank has a branch in London and a total of nine foreign offices worldwide in Abu Dhabi, Bangkok, Istanbul, Johannesburg, Moscow, Mumbai, New York, São Paulo and Singapore.

Environmental and social responsibility

When considering export and finance projects, KfW IPEX-Bank aims to provide particular support to those projects that will have a positive impact on the environment and climate. In addition to the Equator principles – i. e. not limited to project finance – KfW IPEX-Bank classifies every project it finances based on its environmental and social impact.

In 2012, KfW IPEX-Bank provided financing for projects with a significant and measurable positive impact on the environment and climate totalling EUR 2.6 billion. This corresponds to 19 % of the bank's total volume of new commitments and also represents an important contribution to achieving the ambitious environmental and climate protection targets the KfW Group has set for itself.

The main focus was the provision of financing in the Industries and Services business sector for investment in energy-efficient production facilities which use modern technology to achieve high levels of efficiency, thereby protecting the environment. The bank also provided finance for projects promoting the use of renewable energy and environmentally friendly transport such as rail vehicles.

As one of the world's largest ship financiers, KfW IPEX-Bank performed its first-ever ship energy efficiency evaluation in 2012. It showed that, on average, KfW IPEX-Bank's merchant shipping portfolio performs better than the world fleet. In the future, KfW IPEX-Bank will focus on "green shipping". This newly developed assessment method allows the bank to take the energy efficiency of a vessel into account as an additional criterion when making its financing decision and to favour "green", energy-efficient ships over traditionally built ships. This underscores that, as a bank, KfW IPEX-Bank accepts responsibility and is committed to improving ecological living conditions – both in Germany and in the destination countries of exports around the globe.

For KfW IPEX-Bank, another aspect of acting responsibly is rendering its own office operations CO_2-neutral. For example, the bank's head office in Frankfurt is one of the most energy-efficient office buildings the world over. Together with its parent company, KfW IPEX-Bank also uses 100 % green electricity generated from hydropower. Since 2006, KfW IPEX-Bank has rendered remaining emissions, such as those resulting from necessary business trips, CO_2-neutral through the purchase and retirement of emission certificates.

Responsibility for difficult industries impacts earnings

The operating result of KfW's Export and Project Finance business area, for which KfW IPEX-Bank is responsible, stood at EUR 646 million in 2012, up slightly year-on-year. It mainly comprised net interest income and net commission income, less administrative expenses. The merchant shipping crisis led to higher charges against the valuation result than normal in the reporting year, which meant that the result from ordinary business activities came to EUR 307 million. The Export and Project Finance business area contributed EUR 298 million to KfW's consolidated earnings. This confirms its role as an important source of revenue for the KfW Group and allowed it to make an active contribution to securing KfW's long-term promotional capacity, despite adverse circumstances.

The merchant shipping crisis affected KfW IPEX-Bank GmbH to a relatively greater extent than the business area as a whole. KfW IPEX-Bank GmbH is a legally independent and separate reporting entity which focuses solely on export and project finance market transactions. Although the operating result remained on par with the previous year's level, this was almost completely offset by the risk provisions which were required. As a result, only a small profit of EUR 20 million was reported for the 2012 financial year.

The volume of lending in the Export and Project and Finance business area was EUR 60.9 billion as at 31 December 2012, which is almost identical to the previous year's figure.

A progressive human resources policy inspires trust

As one of the world's leading project and export financiers, KfW IPEX-Bank depends on well-trained and motivated employees who impress customers with their expertise, service-minded approach and professionalism.

A remuneration system linked to performance and success and a balance between professional and private life, for example through part-time work, as well as a variety of occupational and health-care benefits are all important components of the bank's human resources policy.

The proportion of employees working part-time increased once again, when compared to the previous year, totalling approximately 13.7 %. Female staff make up 47 % of our workforce. The proportion of women in management stands at 21.3 %. The proportion of disabled employees is 0.7 %, and the bank is striving to increase this figure.

Gender balance

Gender-sensitive management and cooperation is at the forefront of KfW IPEX-Bank's human resources policy. This is based on the conviction that mixed-gender teams perform much more effectively and efficiently at all company levels. The Management Board defined KfW IPEX-Bank's first-ever gender balance targets in 2012. These aim to increase the proportion of women in management, provide women with targeted support to advance their careers, develop flexible and effective working conditions and create a gender-sensitive (management) culture.

Creating a balance between professional and private life is another priority at KfW IPEX-Bank. KfW provides day nursery and kindergarten places, and these are also available to KfW IPEX-Bank employees. A second day nursery was also opened in 2012. In addition, KfW IPEX-Bank offers its employees a variety of part-time working schemes and enables staff to assume managerial responsibilities while working part-time, including via job-sharing.

Personnel

At the end of the year, a total of 558 people were employed by KfW IPEX-Bank.

Co-determined Board of Supervisory Directors

As KfW IPEX-Bank GmbH's workforce now exceeds 500 employees on a permanent basis, it became necessary to reorganise the Board of Supervisory Directors to meet the requirements of the German One-Third Participation Act *(Drittelbeteiligungsgesetz)*. First of all, the company's Articles of Association were amended to comply with the applicable legislation and the general shareholders' meeting appointed six new shareholder representatives in May 2012.

The company's workforce then elected three employee representatives in June 2012. The turnout for this vote was 85 %. At the constituent meeting of the co-determined Board of Supervisory Directors held on 5 July 2012, the Board of Supervisory Directors selected one employee representative to join each of the Executive, Audit and Loan Committees.

Promoting young talent

Ensuring that young people gain the necessary qualifications remains very important to us. Fifteen university graduates were participating in our graduate trainee programme at year-end. This way, we hope to offer specific training opportunities to graduates of business-related courses, both on and off the job, so that they can learn about the bank's various tasks, projects and lending processes.

Close, constructive cooperation

A human resources policy is only successful if managers work in close, constructive cooperation with employees at all levels and in all areas. The works council of KfW IPEX-Bank plays a key role in achieving this goal. We would therefore like to take this opportunity to thank its members, together with the representatives of our disabled employees. We would also like to offer our thanks to all of our employees, whose tremendous commitment and dedication have contributed to the bank's success.

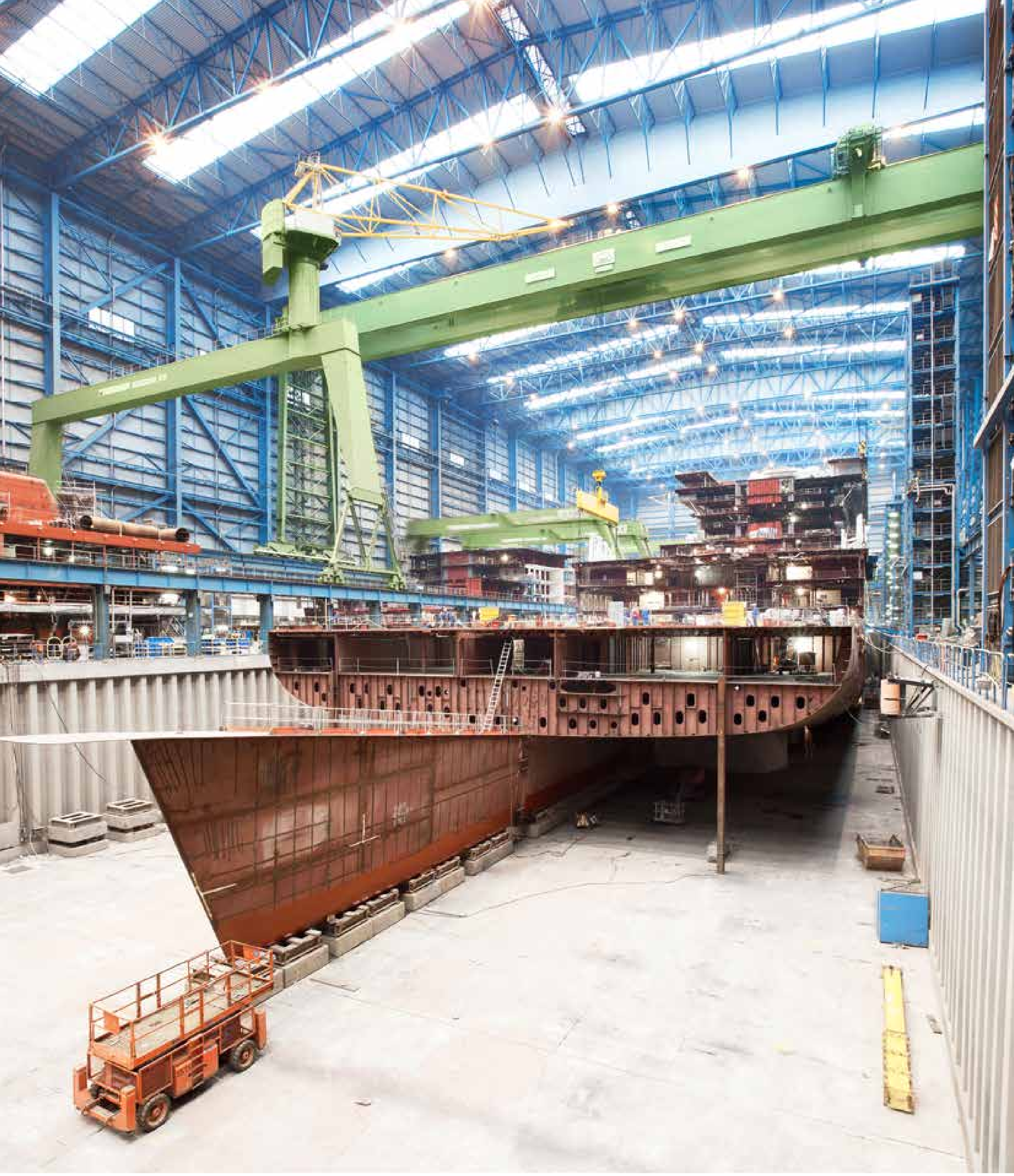
Key personnel figures

Employees	558
Part-time employees	13.7 %
Average age	38.9 years
Percentage of female employees	47.6 %
Percentage of male employees	52.4 %
Percentage of women in management positions	21.3 %
Percentage of disabled employees	0.7 %

››› Capital bridge
New ideas set sail.

High-volume financing for prosperous cruise industry

Meyer Werft, based in Papenburg in Lower Saxony, is building a new-generation cruise ship on behalf of US firm Norwegian Cruise Line. This ship will accommodate up to 4,200 passengers, offering them the greatest possible on-board independence, freedom and flexibility. The ship's purchase price is



approximately EUR 700 million. KfW IPEX-Bank has structured the financing for this project to be disbursed in US dollars. It is covered by an export credit guarantee provided by the Federal Republic of Germany and tied into the favourable ship CIRR (Commercial Interest Reference Rate) set by the OECD. This large-volume order is the result of many years' successful collaboration between the bank, shipyard and shipowner and will strengthen the shipyard industry in northern Germany – including its supply chain throughout Germany.

Management Report of KfW IPEX-Bank GmbH

General economic conditions

The global economy lost momentum over the course of 2012. This was mainly caused by the effect of the economic recession on industrialised nations, particularly the euro area and the United Kingdom. Developing and emerging countries continued to drive the world economy, growing at rates above the global average. However, they came nowhere near to the rates of growth achieved in previous years. It became increasingly apparent that emerging countries were being affected by weaknesses they had brought on themselves, such as inadequate infrastructure, a backlog of reforms, etc.

Fortunately, global inflation declined in 2012. This allowed industrialised countries greater scope to implement monetary policy measures, which they duly initiated. The easing of upward pressure on prices also had a positive effect in terms of welfare and society in developing and emerging countries, and the rise in international food prices in the summer of 2012 did not have as serious an impact on local markets as was originally feared. Nevertheless, inflation in developing and emerging countries remained excessively high. A continued decline in global imbalances was another positive feature of 2012. In particular, China's current account surplus fell in relation to GDP, while the USA's current account deficit remained static. However, this may not last in the long term, as these effects depend primarily on economic conditions (weakness of demand in countries with deficits). As such, global imbalances remained a subject of discussion in international forums such as the G20.

Overall the US economy expanded at a moderate rate in 2012, growing by 2.2 % year-on-year in real terms. Economic development in the euro area was hampered by the ongoing uncertainty among consumers, companies and capital market participants created by the euro crisis, as well as the fiscal consolidation policies pursued by many euro area countries. Consequently, economic output in the euro area declined by 0.5 % in real terms compared to 2011.

The euro crisis also dominated the financial markets in 2012. The measures announced by the European Central Bank in December 2011 in an effort to contain the crisis, and in particular the two longer-term tenders aimed at alleviating refinancing bottlenecks in the European banking sector, initially led to noticeably improved sentiment on the financial markets in the first few months of 2012. However, this improvement was not to last.

Speculation began to mount that the euro area would collapse, against the backdrop of political deadlock following Greece's parliamentary elections at the start of May and growing problems in the Spanish banking sector. This led to a significant rise in risk premiums on Spanish and Italian bonds, which reached their highest level for the year in the second half of July. The market did not begin to settle until the president of the ECB confirmed the ECB's determination to do whatever it takes, within its mandate, to preserve the euro. This statement was supported in September by an announcement of unlimited purchases of government bonds, subject to certain conditions. Furthermore, political decision-makers also laid important institutional groundwork in order to stabilise the euro area in the future. Concerns about the continued existence of the euro area waned considerably as a result of these developments. This could be seen in a noticeable fall in risk premiums on bonds from peripheral euro area countries.

The EUR/USD exchange rate in 2012 was dragged in the wake of the euro crisis. It began the year by climbing and, at the end of February, reached its highest level for the year at 1.34. Growing fears in early summer of a possible collapse of the euro area led to a fall in the EUR/USD exchange rate to 1.20 by the end of July. It then recovered again significantly as the year progressed, reaching 1.32 by the end of 2012. The average EUR/USD exchange rate for the year was 1.28, which represents a devaluation of 8 % compared to 2011.

The German real economy was held back in 2012 by subdued global demand, "stabilisation recessions" in southern Europe and the continued high level of uncertainty in the euro area as a result of the crisis, despite tangible progress having been made. Economic momentum increasingly waned as the year went on, and by the end of 2012 economic activity had actually declined by 0.6 % compared to the previous quarter. According to second estimates from the German Federal Statistical Office *(Statistisches Bundesamt)* released in February, real-terms GDP grew by 0.7 % during 2012 as a whole (adjusted for calendar variations as well as inflation: +0.9 %). As such, not only was average real growth for the year considerably weaker than in 2011 (+3.0 %), it also fell noticeably short of the growth-rate trend experienced since reunification. Nevertheless, having achieved this level of growth in a crisis environment, Germany is in a good position internationally. The level of economic output, both in absolute terms and per capita, is now considerably higher than the pre-crisis peak in 2008; no other major industrialised economy has so far achieved this.

Domestic growth in 2012 was stimulated by consumption (+0.8 %) and housing construction (+0.9 %). Private consumption benefited from a robust labour market and real wage growth. Despite weakening economic traction, the population in work exceeded the 41 million mark by an even greater degree than in 2011 and achieved a new German record for the sixth year in a row. At the same time, the average annual rate of unemployment continued to decline, falling in 2012 to a low for Germany as a whole (6.8 %) for a second year in succession. Combined with significant increases in nominal wages and the year-on-year fall in inflation, this strengthened the purchasing power of consumers.

Net exports – the difference between exports and imports – also significantly boosted growth in 2012. However, this does not imply strengthened foreign trade – in fact, quite the opposite. Recession in large parts of Europe and weaker economic momentum in key emerging countries such as China meant that a fall in export growth was to be expected, and was indeed the case. At +3.7 % in 2012, export growth was far lower than in 2010 (+7.8 %) and 2011 (+13.7 %). The fact that net exports still made a considerable positive contribution to growth in purely mathematical terms in 2012 is due solely to the even smaller increase in imports (+1.8 %). This weak level of imports reflects companies' reluctance to invest.

Germany generated a slight budget surplus of 0.2 % of GDP in 2012, following a comparatively small deficit of 0.8 % the year before. The labour-intensive nature of growth in previous years contributed significantly to this successful consolidation. This is highly profitable in fiscal terms thanks to higher income taxes and lower expenditure on unemployment insurance. Nevertheless, development of government finances is not entirely positive. In terms of spending, this consolidation has so far been very much at the expense of public investment – which dropped by as much as –9.5 % in 2012 – and has therefore affected infrastructure and long-term potential for growth.

Business development of KfW IPEX-Bank GmbH

Within the KfW Group, KfW IPEX-Bank is responsible for international project and export finance (E&P) in the interests of the German and European economy. This task is derived from the statutory mission of KfW.

Despite the global economy losing momentum over the course of the year, worldwide demand for capital goods from German and European manufacturers was still stable in 2012. The supply of financing available from European banks continued to be subject to restrictions arising from the financial and sovereign debt crisis, balance sheet clean-ups and future Basel III regulations. Overall, in an increasing number of specific cases, only a limited supply of financing was available to meet corresponding funding requirements. This was compensated in part by non-European banks and the capital market.

In new business, KfW IPEX-Bank concentrated on borrowers with good ratings and on providing finance for projects backed by good collateral. Against the background of this market environment, it was possible to increase the volume of new commitments from the original credit business in the E&P business area in 2012 by EUR 1.4 billion over the previous year, to a total of EUR 12.9 billion. In addition, new commitments totalling EUR 0.5 billion were provided for refinancing banks under CIRR ship financing. Of these total commitments, EUR 7.2 billion constituted market business of KfW IPEX-Bank, and EUR 5.7 billion was associated with trust business performed on behalf of and for the account of KfW.

A key element of the bank's business strategy is its presence on the main international target markets for the German and European export industry. This is in line with the bank's mission to support the export economy in global competition, and to provide finance for investment in infrastructure and transport, for environmental and climate protection projects and for projects that secure the supply of raw materials to Germany. KfW IPEX-Bank has a branch in London and nine foreign offices worldwide.

KfW IPEX-Bank's refinancing is based almost completely on funds from KfW, with conditions in line with capital market conditions. These conditions improved for KfW IPEX-Bank and competitor commercial banks over the course of 2012. In the first quarter of 2012, glimmers of economic hope such as positive company results and the pledge made by the US Federal Reserve to keep base rates low in the long term led to market optimism. In addition, inexpensive three-year loans offered to banks by the ECB reduced pressure on the capital markets, resulting in a further reduction in banks' credit risk premiums and also enabling a restructuring of Greece's debt. The second quarter was dominated by fears that the European sovereign debt crisis would spread. In particular, political difficulties in Greece and mounting pressure on Spanish banks led to greater volatility in refinancing costs for European financial institutions, which began to move sideways. Credit risk premiums for banks continued to fall in the second half of the year. This development was supported by EU summit resolutions, including decisions to stabilise the euro area and to provide direct aid for banks via the European Stability Mechanism (ESM). The measures implemented by the ECB to purchase government bonds of euro area member states and to lower base rates to 0.75 %, as well as its pledge to "do whatever it takes to preserve the euro", also had a positive impact. KfW IPEX-Bank's refinancing situation improved in the course of these developments. The bank's average refinancing costs for the year were at a significantly lower level than for the previous year.

Moody's rating of Aa3 was reconfirmed in 2012. The rating from Standard & Poor's also remained unchanged at AA.

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

The total assets of KfW IPEX-Bank as at the reporting date were EUR 46.3 billion, almost the same as the end of the previous year. On the assets side, loans and advances to customers fell by EUR 0.8 billion, primarily due to the decline in loans and advances denominated in US dollars. This was largely offset by a EUR 0.3 billion rise in loans and advances to banks and a EUR 0.4 billion increase in assets held in trust. KfW IPEX-Bank's trust item primarily consisted of the loan transaction administered under a dispositive trust *(Ermächtigungstreuhand)* for KfW in the E&P business area. The liabilities side was mainly characterised by capitalisation measures implemented in the 2012 financial year. An allocation of EUR 500 million was paid into the capital reserve in April of the financial year as part of optimising the bank's capital structure in line with Basel III requirements for capital adequacy of banks. In return, KfW IPEX-Bank repaid the profit participation capital and a tranche of the subordinated liabilities ahead of schedule.

The volume of business which, in addition to total assets, comprised contingent liabilities from guarantees and irrevocable loan commitments, amounted to EUR 54.3 billion, representing a moderate rise of EUR 0.1 billion. Irrevocable loan commitments contributed an increase of EUR 0.4 billion, while contingent liabilities fell by EUR 0.2 billion.

The bank's regulatory capital totalled EUR 4.2 billion as at 31 December 2012. The total capital ratio maintained in accordance with the German Solvency Regulation *(Solvabilitätsverordnung – SolvV)* fell from 19.3 % to 17.8 % compared with the previous year. The tier 1 capital ratio rose to 13.5 %, due in part to the strengthening of the capital reserve.

Operating income before risk provisions and valuations totalled EUR 264 million and was therefore around the same level as the previous year's figure of EUR 258 million. The main items included in earnings were net interest income and net commission income, which totalled EUR 420 million. Net interest income increased by EUR 15 million (+6 %) to EUR 265 million, while net commission income remained around the same level as the previous year at EUR 155 million. Administrative expense amounted to EUR 143 million, comprising personnel expense of EUR 71 million and other administrative expenses including depreciation on property, plant and equipment of EUR 72 million. Other operating income of EUR –13 million was mainly attributable to the foreign currency result and the banking levy expense. Revenue from services provided to group companies is also included in this item.

The most significant item in the total risk provision and valuation result of EUR –244 million is the risk provision result in the lending business (EUR –251 million). The bank significantly increased acute risk provisions as part of its conservative risk assessment, primarily for the credit portfolio of the Maritime Industries business sector. Valuations from securities and investments totalling EUR 7 million principally consisted of reversals of write-downs on securities held as fixed assets. Overall, all recognisable risks were covered by commensurate risk provisions.

Operating income before taxes was EUR 20 million. The general banking risks fund for strengthening the bank's tier 1 capital and stabilising solvency ratios with regard to fluctuations in USD exchange rates, in accordance with Section 340 g of the German Commercial Code *(Handelsgesetzbuch – HGB)*, was adjusted in line with developments in the USD exchange rate. This led to the withdrawal of an amount equivalent to EUR 6 million in the reporting year. After deducting income taxes, net income for the year totalled EUR 17 million.

Development of net assets

Volume of lending for own account

The volume of lending (loans and advances to customers and banks including financial guarantees and irrevocable loan commitments) was EUR 29.1 billion as at 31 December 2012 and was therefore down by a moderate EUR 0.3 billion on volume at the end of the previous year.

Loans for own account by business sector

Business sector[1]	31 Dec. 2012 EUR in millions	31 Dec. 2011 EUR in millions	Change EUR in millions
Maritime Industries	5,009	5,733	–724
Aviation and Rail	4,280	4,219	61
Power, Renewables and Water	3,310	3,109	201
Industries and Services	3,178	2,971	207
Basic Industries	2,096	2,166	–70
Transport and Social Infrastructure	2,117	2,063	54
Leveraged and Acquisition Finance, Mezzanine, Equity	98	746	–648
Financial Institutions, Trade & Commodity Finance	765	522	243
	20,853	**21,529**	**–676**
Other receivables	257	46	211
Loans and advances to banks and customers	**21,110**	21,575	**–465**
Financial guarantees[2]	**2,052**	2,235	**–183**
Irrevocable loan commitments[2]	**5,896**	5,540	**356**
Total	**29,058**	**29,350**	**–292**

[1] The following business sectors were renamed in 2012 (previous name in parentheses): Maritime Industries (Shipping), Industries and Services (Manufacturing Industries, Retail, Health, Telecommunications), Leveraged and Acquisition Finance, Mezzanine, Equity (Leveraged Finance, Mezzanine, Equity).
[2] Refer to the Notes for a breakdown of the amounts by business sector.

The total volume of lending remained stable overall. In the reporting year, the bank provided new commitments in the E&P business area totalling EUR 12.9 billion (not including bank refinancing under CIRR ship refinancing), representing a year-on-year increase of EUR 1.4 billion (+13 %). The bank's market business accounted for EUR 7.2 billion (56 %) of new commitments. Other receivables were primarily the result of short-term investments in the form of money and term deposits held with KfW. The financial guarantees chiefly include performance guarantees (EUR 1.5 billion) and guaranteed credits (EUR 0.5 billion).

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

Development of other major balance sheet assets

The carrying amount of bonds and other fixed-income securities of the bank as at the reporting date of 31 December 2012 amounted to EUR 2.0 billion and thus remained virtually unchanged compared with the previous year. The sale and disposal of held-to-maturity securities totalling EUR 0.6 billion was largely compensated by new investments in KfW bonds. Almost all of the securities were classified as fixed assets (EUR 2.0 billion). Current assets included a security of EUR 36 million.

Assets held in trust increased by EUR 0.4 billion to EUR 23 billion and were almost entirely made up of loans administered under a dispositive trust for KfW in the E&P business area.

The carrying amount of investments as at 31 December 2012 was EUR 132 million. This year-on-year rise of EUR 10 million was primarily the result of allocations paid by the bank into existing fund investments.

Other assets totalled EUR 53 million and mainly included refund claims against the financial authorities amounting to EUR 48 million.

Development of financial position

Refinancing

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

Liabilities to banks totalled EUR 18.1 billion and therefore declined slightly by EUR 0.3 billion. The bank's refinancing was largely based on medium- to long-term promissory note loans from KfW. Funds were principally borrowed in euros and US dollars.

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

Structure and development of refinancing

	31 Dec. 2012 EUR in millions	31 Dec. 2011 EUR in millions	Change EUR in millions
Liabilities to banks			
Current account (KfW)	0	2	–2
Call money and term money borrowing (KfW)	2,012	2,655	–643
Promissory note loans and other long-term borrowing (KfW)	15,946	15,629	317
Interest payable (KfW)	113	126	–13
KfW total	**18,071**	**18,412**	**–341**
Other	43	36	7
	18,114	**18,448**	**–334**
Liabilities to customers			
Other creditors[1]	511	**374**	137
Total	**18,625**	**18,822**	**–197**

[1] Includes liabilities from term money borrowing (EUR 327 million) and promissory note loans (EUR 134 million) to customers

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

	31 Dec. 2012 EUR in millions	31 Dec. 2011 EUR in millions	Change EUR in millions
Equity	3,106	2,589	517
Subscribed capital	*2,100*	*2,100*	*0*
Capital reserve	*950*	*450*	*500*
Retained earnings	*39*	*39*	*0*
Balance sheet profit	*17*	*0*	*17*
Profit participation capital	0	503	–503
Subordinated liabilities	1,137	1,345	–208
Fund for general banking risks in accordance with Section 340 g of the HGB	294	300	–6
Total	**4,537**	**4,737**	**–200**

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

In December 2010, the Basel Committee on Banking Supervision set out more stringent requirements regarding the quantity and quality of banks' equity (Basel III). Basel III will be implemented in the European Union through the Capital Requirements Directive and the Capital Requirements Regulation (CRD IV). The scheduled start date for Basel III had to be postponed once again, and introduction in Europe is now expected by the start of 2014 at the latest. From this point onwards, substantially stricter requirements will be phased in with regard to tier 1 capital for banking supervisory purposes.

Against this background, KfW IPEX-Bank and KfW as (indirect) shareholder of the bank agreed on a capitalisation concept in December 2011 to bring the capital structure of the bank in line with future regulatory provisions. The German Federal Financial Services Supervisory Authority *(Bundesanstalt für Finanzdienst-*

leistungsaufsicht – BaFin) gave its consent to the concept resolved upon by the Board of Supervisory Directors of KfW.

The bank strengthened its tier 1 capital further in the reporting year as part of implementing the capitalisation concept. The capital reserve allocated to common equity tier 1 capital in accordance with Basel III was increased by EUR 500 million as at 2 April 2012 by means of a corresponding allocation from KfW IPEX-Beteiligungsholding GmbH. In return, the bank repaid profit participation capital of USD 650 million and a tranche of subordinated liabilities of USD 240 million ahead of schedule as planned. After carrying out these measures, the total portfolio of subordinated liabilities amounted to USD 1,500 million (EUR 1,137 million) as at the reporting date. The bank called in a further tranche of subordinated liabilities in the amount of USD 500 million at the end of the financial year as part of the capitalisation concept. This is to be repaid with effect from 31 January 2013.

The silent partner contribution and subordinated loans are designed to ensure they meet requirements currently in force under Section 10 of the German Banking Act *(Kreditwesengesetz – KWG)* regarding own funds of banks.

The fund for general banking risks, which serves to strengthen the bank's tier 1 capital and stabilise solvency ratios with regard to fluctuations in USD exchange rates, in accordance with Section 340 g of the German Commercial Code *(Handelsgesetzbuch – HGB)*, amounted to EUR 294 million as at 31 December 2012. This year-on-year change resulted solely from adjustment of the fund holding to movements in the USD exchange rate.

Development of other material items of liabilities and equity

Provisions totalled EUR 159 million as at the reporting date. This year-on-year decline of EUR 31 million was mainly the result of a reduction in provisions for the lending business.

Other liabilities totalling EUR 18 million mainly comprise the balancing item for the foreign currency translation of derivative hedges. The EUR 24 million reduction in the portfolio compared with the previous year was mainly the result of early repayment of profit participation capital over the course of the reporting year and the associated discontinuation of pro rata interest liabilities.

Off-balance sheet financial instruments

The total volume of derivative transactions undertaken to hedge interest and exchange rate risks amounted to EUR 13.1 billion as at 31 December 2012 and therefore rose by a moderate EUR 0.5 billion (4 %) year-on-year. Interest rate swaps with a volume of EUR 12.5 billion, as contracts with interest rate risks, represent by far the largest proportion (95 %) of the total volume of off-balance sheet financial instruments. In order to manage market price risks, the bank also uses cross-currency swaps (EUR 0.6 billion) and, to a limited extent, FX swaps and forward exchange deals.

Earnings position

	1 Jan.–31 Dec. 2012	1 Jan.–31 Dec. 2011	Change	
	EUR in millions	EUR in millions	EUR in millions	%
Net interest income[1)]	265	250	15	6
Net commission income	155	154	1	1
General administrative expenses	–143	–137	6	4
Other operating income and expenses	–13	–4	–9	<–100
Operating income before risk provisions/valuations	**264**	**263**	**1**	**0**
Valuations from securities and investments	7	–27	–34	<–100
Risk provision result in lending business	–251	–7	244	>100
Risk provisions and valuations, total	**–244**	**–34**	**210**	**>100**
Operating income before taxes	**20**	**229**	**–209**	**–91**
Reduction of/appropriation to the fund for general banking risks in accordance with Section 340 g of the German Commercial Code (HGB)	6	–150	156	>100
Profit/loss from operating activities before taxes	**26**	**79**	**–53**	**–67**
Taxes on income	–9	–49	–40	–82
Net income for the year	**17**	**30**	**–13**	**–43**

1) Including current income from shares and other non-fixed-income securities and equity investments

In the 2012 financial year, KfW IPEX-Bank achieved operating income before risk provisions and valuations of EUR 264 million, which is around the same high level as the previous year.

The most significant sources of income for the bank were net interest and net commission income, which overall contributed EUR 420 million to net income. Net interest accounted for

EUR 265 million of this amount, and net commission income for EUR 155 million.

The bank generated total interest income of EUR 672 million, of which EUR 634 million (94 %) resulted from credit and money market transactions and EUR 35 million (5 %) from the securities portfolio. The bank also achieved current income from shares and investments of EUR 3 million (1 %). Interest expenses amounted to EUR 407 million and related mainly to accepted promissory note loans and to money market transactions totalling EUR 259 million. Interest expenses also included the hybrid capital instruments of the silent partner contribution (EUR 40 million), subordinated liabilities (EUR 17 million) and profit participation capital (EUR 8 million).

Net commission income amounted to EUR 155 million, which was primarily made up of income from processing fees in lending activities totalling EUR 137 million. This also includes remuneration for the transaction administered under a dispositive trust for KfW in the E&P business area (EUR 74 million). The item also includes income from guarantee commissions (EUR 21 million).

Administrative expense
The administrative expense of EUR 143 million relates to personnel expense of EUR 71 million and non-personnel expense, including depreciation on property, plant and equipment, of EUR 72 million. Non-personnel expense mainly includes expenses for services of EUR 36 million (50 %). This also contains office operating costs (EUR 15 million) and occupancy costs (EUR 9 million). EUR 56 million (78 %) of non-personnel expense is the result of expenses for services procured from KfW.

Administrative expense

	2012 EUR in millions	2011 EUR in millions	Change EUR in millions
Wages and salaries	60	57	3
Social insurance contributions	6	6	0
Expense for pension provisions and other employee benefits	5	5	0
Personnel expense	**71**	**68**	**3**
Non-personnel expense	**72**	**69**	**3**
Administrative expense	**143**	**137**	**6**

Risk provisions and valuations
The most significant item in the total risk provision and valuation result of EUR –244 million is the risk provision result in the lending business (EUR –251 million). The item includes valuations from securities and investments of EUR 7 million.

In terms of risk provisions for its lending business, KfW IPEX-Bank makes a distinction between specific loan loss provisions and portfolio loan loss provisions. Portfolio loan loss provisions are calculated using an expected loss concept, whereby the risk provisions for all loans without specific loan loss provisions are based on the loss expected within one year.

An increase in acute risk provisions in the Maritime Industries business sector characterised risk provisions in the lending business in the reporting year. General risk provisions were reversed accordingly. In so doing, the bank covered all recognisable risks by means of commensurate risk provisions within the context of its conservative risk assessment policy.

Valuations from securities and investments totalling EUR 7 million mainly consisted of reversals of write-downs on securities held as fixed assets.

Further information about risk provision and the valuation result can be found in the risk report.

Summary

In the 2012 financial year, KfW IPEX-Bank again recorded operating income before risk provision and valuations at approximately the previous year's high level. After taking into account the total risk provision and valuation result, the bank generated net income before taxes of EUR 20 million. Primary contributors were the risk provisions requirement in the Maritime Industries business sector and the bank's conservative risk assessment.

After including withdrawals from the fund for general banking risks in accordance with Section 340 g of the German Commercial Code (HGB) (EUR 6 million) and deducting income taxes (EUR –9 million), KfW IPEX-Bank recorded net income for the year of EUR 17 million.

Subsequent events

No events of particular importance took place after the closing of the financial year.

Sustainability Report

Environmental and social responsibility

KfW IPEX-Bank acts responsibly. When considering financing for projects or planned exports, the specialised bank aims to provide particular support to those projects that will have a positive impact on the environment and climate. Given the international nature of its lending business and the resulting global ecological, social and economic relevance of its actions, KfW IPEX-Bank joined the Equator Principles Financial Institutions (EPFI) in 2008. There are now over 70 so-called Equator banks which adhere to an extensive set of regulations in order to meet environmental and social standards when financing projects. This includes compliance with the IFC (International Finance Corporation) Performance Standards and the Environmental, Health, and Safety (EHS) Guidelines of the World Bank Group. The Equator Banks participate in regular dialogue in order to build on and improve these high standards. KfW IPEX-Bank is also actively involved in this dialogue.

Another aspect of acting responsibly for KfW IPEX-Bank is rendering its own office operations CO_2-neutral. As such, the bank's headquarters in Frankfurt are based in one of the most energy-efficient office buildings in the world. The so-called West Arcade's primary energy consumption of 98 kWh/m^2 per year falls well below previous benchmark standards. Together with its parent company, KfW IPEX-Bank also uses 100 % green electricity generated from hydropower. Since 2006, KfW IPEX-Bank has rendered remaining emissions, such as those resulting from necessary business trips, CO_2-neutral through the purchase and retirement of emission certificates.

The ABCs of environmental and social assessments

In addition to the Equator principles – i. e. not just in project finance – KfW IPEX-Bank assigns every project it finances to one of three categories A, B or C as part of its lending process. Category A covers projects that could have substantial, diverse, and, in some cases, irreversible environmental and social effects, for example projects which significantly impact on nature such as raw materials projects or the building of dams. Category B describes projects where the effects on society and the environment are usually more limited and technically manageable – this applies to many industrial projects. Projects with negligible or no negative impact on the environment or society are classified as category C. Projects which are to be carried out within the EU or in an OECD country are exempted from the requirement for an in-depth review. There is a presumption in such cases that, as in Germany, an authorisation and monitoring regime for environmental and social matters is already in place.

The expertise of internal KfW specialists is used when assessing the risks of a project with regard to its environmental and social impact. In cases where an in-depth review is undertaken, KfW IPEX-Bank will only grant relevant financing – where necessary with additional requirements – if internationally accepted environmental and social standards are adhered to and, as a special case for project finance, the Equator Principles are complied with.

In 2012, KfW IPEX-Bank assessed 8 % of the nearly 300 new loan agreements it concluded. Of these, four contracts relating to projects in non-OECD countries underwent separate, comprehensive assessments. Two contracts were from category A and the other two from category B. KfW IPEX-Bank primarily supports projects carried out in countries with authorisation and monitoring regimes that ensure sufficient protection against negative environmental and social impacts.

Environmental and climate projects in the core business

In 2012, KfW IPEX-Bank provided financing for projects with a significant and measurable positive impact on the environment and climate totalling EUR 2.6 billion. This corresponds to 19% of the bank's total volume of new commitments and also represents an important contribution to achieving the KfW Group's ambitious environmental and climate protection targets. The main focus was the provision of financing in the Industries and Services business sector for investment in energy-efficient production facilities which use modern technology to achieve high levels of efficiency, thereby protecting the environment. The bank also provided finance for projects promoting the use of renewable energies and environmentally friendly means of transport such as rail vehicles.

KfW IPEX-Bank, one of the largest ship financing banks in the world, performed its first-ever ship energy efficiency assessments in 2012. The bank subjected its shipping portfolio to a thorough examination in collaboration with FutureShip, a subsidiary of Germanischer Lloyd. The assessment approach used was based on the Energy Efficiency Design Index (EEDI) and the standards of the International Maritime Organisation (special organisation of the United Nations). It provides an indicator for energy efficiency and CO_2 emissions of ships. Binding EEDI upper limits will be introduced for new-build merchant vessels from 2013 onwards. However, the energy efficiency of existing vessels also plays an increasingly important role in chartering decisions.

The energy efficiency of 88% of the ships in KfW IPEX-Bank's portfolio was evaluated using these criteria, with good results – on average the merchant shipping portfolio performed better than the world fleet.

In the future, KfW IPEX-Bank will focus on "green shipping". This newly developed assessment method allows the bank to take into account the energy efficiency of a vessel as an additional criterion when making its financing decision and to favour "green", energy-efficient ships over traditionally built ships. This underscores that we as a bank take responsibility and are committed to improving ecological living conditions – both in Germany and in the destination countries of exports around the world.

Future human resources policy

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 HR policy include a success-based, performance-oriented remuneration system and a balance between professional and private life, for example through part-time work, and a variety of professional and health-care benefits. The proportion of employees working part-time increased further over the previous year, totalling approximately 13.7%. The proportion of female staff remained at around 47%. The proportion of women in management stood at 21.3%.

Risk Report

General conditions of risk management and control

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

KfW IPEX-Bank understands risk to mean the threat of unfavourable future developments which could have a sustained negative effect on the net assets, liquidity position and results of operations of the bank. In the 2012 financial year,

- Credit risks
- Market price risks
- Operational risks
- Funding cost risks and
- Concentration risks

were specifically identified as significant types of risk faced by the bank.

The financial holding group, which, besides KfW IPEX-Bank, consists of KfW IPEX-Beteiligungsholding GmbH, Railpool Holding GmbH & Co. KG and Movesta Development Capital Beteiligungsgesellschaft, is dominated to a large extent by KfW IPEX-Bank. Due to their narrowly defined range of activities, the subsidiary companies are only of limited economic importance, thus no additional material risks at group level have been identified.

Business and risk strategy

The Management Board of KfW IPEX-Bank defines the principles of the bank's risk policy and thus the framework for undertaking and controlling risks within the scope of its risk strategy. It also takes into account the strategy's compatibility with the general risk policy conditions of the KfW Group applicable to the Group as a whole.

The risk strategy addresses the risks arising from the business strategy according to the provisions of the Minimum Requirements for Risk Management *(Mindestanforderungen an das Risikomanagement – MaRisk)*, and for this purpose takes account of all business units and risk types that are of significance to the bank.

The nature and extent of risk-taking as well as the way risks are dealt with are derived from our business model, the main aspects of which are defined in the business strategy. The most important risk type for KfW IPEX-Bank in this context is credit risk (in particular counterparty risk) followed by market risks (including credit spread risk) and operational risks. Liquidity risks (in the form of funding cost risk) and concentration risks play a much smaller role in the overall risk position of KfW IPEX-Bank.

Organisation of risk functions

The Management Board represents the highest decision-making body with responsibility for risk control and monitoring. In this context, it is responsible in particular for defining the risk strategy, risk standards and risk assessment methods. The risk functions of KfW IPEX-Bank include the Risk Management, Credit Analysis, Special Asset Group and Risk Controlling departments, which are all separate from front-office areas up to the level of the Management Board. This means the separation of functions between front office and back office as demanded in the Minimum Requirements for Risk Management (MaRisk) is taken into account at all levels of the organisational structure.

Risk management includes the "second vote" method under which loan applications are assessed in terms of risk aspects as defined by the back-office departments, as well as identifying and evaluating risks in the portfolio at an early stage, and determining measures to reduce risks. In addition, Risk Management reviews and approves ratings assigned to new and existing project financing transactions. As a separate organisational unit under Risk Management, the "Collateral Management" team is responsible for the proper provision and valuation of all collateral, monitors the eligibility of collateral when determining risk indicators and in this context continuously monitors the development of the value of the collateral. The "Risk Instruments and Risk Strategy" team is responsible for the risk strategy, maintenance and further development of the tools used (balance sheet capture, rating, pricing) as well as for monitoring the risk functions outsourced to KfW. It is also responsible for operative limit management and covers the areas "operational risks" and "business continuity management".

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

The Special Asset Group is responsible for problem loan processing and in certain cases for intensified loan management of exposures.

KfW IPEX-Bank has outsourced a number of functions and activities in risk management and risk controlling to KfW. This includes validation and further development of the rating methodology for counterparty risks, the methodology for and controlling of market price and liquidity risks as well as for operational risks, and maintenance and further development of the limit management system for KfW IPEX-Bank. The portfolio management and risk reporting functions have also been outsourced to KfW. The outsourced functions and activities are governed by service level agreements between KfW IPEX-Bank and KfW. Monitoring of outsourced functions ensures that KfW IPEX-Bank also fulfils its responsibility for these functions in accordance with Section 25 a (2) of the German Banking Act *(Gesetz über das Kreditwesen – KWG).*

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

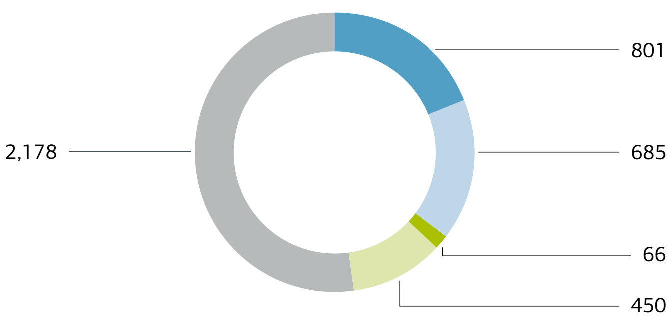
The Board of Supervisory Directors is responsible for monitoring the Management Board regularly. It is also involved in important loan and refinancing decisions.

Risk-bearing capacity and regulatory capital adequacy

Ensuring economic and regulatory risk-bearing capacity on a permanent basis is the main objective of the risk strategy. According to KfW IPEX-Bank's risk-bearing capacity concept, economic and regulatory risk-taking potential is equal to the regulatory capital *(regulatorisch anrechenbare Eigenmittel)* in accordance with Section 10 (1d) in conjunction with Section 10 (2) of the German Banking Act *(Gesetz über das Kreditwesen – KWG)*. As at 31 December 2012, the risk-taking potential was EUR 4,180 million, which was composed of
- EUR 3,163.5 million in tier 1 capital and
- EUR 1,016.9 million in tier 2 capital.

The tier 2 capital was set aside as a central reserve for internal management purposes. A risk budget for entering into risks at an overall bank level was provided from the tier 1 capital, with due consideration of a risk buffer[1)]. The total capital budget is divided among counterparty risk, market risk and operational risk in accordance with the business strategy.

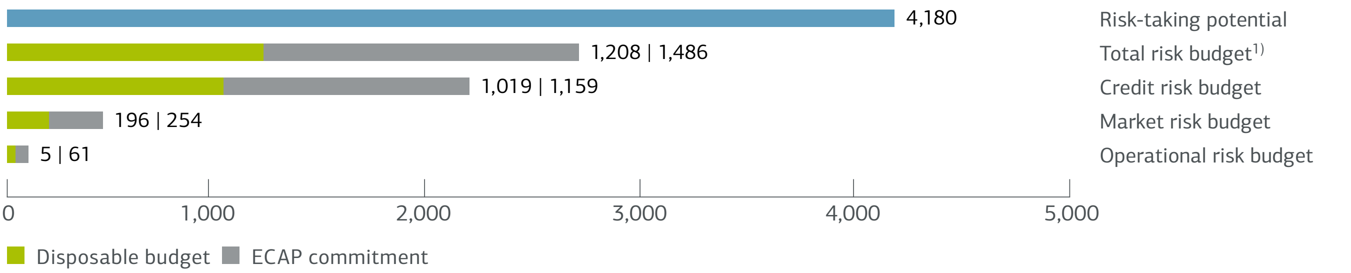
Risk-bearing capacity: Risk-taking potential and risk budget as at 31 December 2012
Figures in EUR millions,
Risk-taking potential: EUR 4,180 million



1) Changes to the capital structure during the year lead to differences between the central reserve and the tier 2 capital and between the capital budget and risk buffer and the tier 1 capital.

As demonstrated by the following overview, risk budgets as at 31 December 2012 were not fully utilised. Of the entire EUR 4,180 million risk-taking potential, EUR 1,486 million was accounted for by risk positions as at 31 December 2012. This means utilisation of the risk-taking potential at the overall bank level amounts to 36 %.

Utilisation of risk budget as at 31 December 2012 (figures in EUR millions)



[1)] Total ECAP commitment including EUR 11 million in hidden charges

Regulatory capital requirements must be taken into account as a strict additional condition for in-house risk management. As at 31 December 2012, the tier 1 capital ratio was 13.5 % and the total capital ratio 17.8 %; thus, the regulatory requirements are met.

The capital structure of KfW IPEX-Bank was adjusted in 2012 in order to meet Basel III capital requirements – tier 1 capital was increased by adding EUR 500 million to the capital reserve, while tier 2 capital was lowered by repaying profit participation capital in the amount of USD 650 million and reducing the subordinated loan by USD 240 million. Early repayment of a subordinated loan is scheduled for 2013.

Credit risks

Lending activities represent 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. According to the group-wide uniform system, this comprises the sub-risk types of classic credit risk (credit risk in the narrower sense), counterparty risk, securities risk, country risk, settlement risk and validity risk.

Credit risk in the narrower sense

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

Counterparty risk

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

Securities risk

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

Country risk

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

Settlement risk

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

Validity risk

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

Measurement of counterparty risk

Counterparty risk is assessed at the level of the individual counterparty or the individual transaction, based on internal rating processes. In this case, the bank uses the advanced internal ratings-based approach (IRBA). The following rating systems of KfW IPEX-Bank are permitted to use the IRBA under supervisory law:

- Corporates
- Banks
- Countries
- Simple risk weighting for special financing operations (elementary/slotting approach).

The bank's IRBA rating systems are used in accordance with the German Solvency Regulation *(Solvabilitätsverordnung – SolvV)* to estimate the central risk parameters[2)] separately:

- Probability of default (PD)
- Loss given default (LGD)
- Exposure at default (EAD).

With the exception of special financing, these processes are based on scorecards and follow a uniform, consistent model architecture. Various simulation-based rating modules, licensed from an external provider, are used internally to measure counterparty risk for special financing. In this case, the risk assessment for a financing transaction is mainly determined by the cash flows from the financed object. The rating procedures are calibrated to a one-year default probability. Both the ratings for new customers and the follow-on ratings for existing customers are defined by observing the principle of dual control in the back-office departments.

Comparability of the individual rating processes is guaranteed by depicting the probabilities of default on a group-wide, uniform master scale. The master scale consists of 20 different sub-classes which can be grouped together into four classes of investment grade, non-investment grade, watch list and default. Each master scale class is based on an average probability of default.

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

Regular validation and further development of the rating processes ensures that it is possible to respond promptly to changing general conditions. The objective is to increase the discriminatory power of all rating processes continuously.

Both the outstanding volume of lending and the valuation of collateral exert a significant influence on the probability of default. As part of the collateral valuation for eligible collateral[3)], expected net proceeds from the realisation of collateral in the event of default are estimated over the entire term of the loan. This takes account of collateral deductions that, for personal collateral, are based on the probability of default and the loss quota of the collateral provider. In the case of security in rem, 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). The various valuation procedures for individual collateral types are based on internal and external historical loss data, as well as expert estimates, depending on the availability of data. The valuation parameters are subject to a regular validation process. This means a reliable valuation of the collateral position is guaranteed at the level of individual collateral items.

The interaction between risk properties of the individual commitments in the loan portfolio is assessed using an internal portfolio model. Pooling together large portfolio shares into individual borrowers or borrower groups harbours the risk of major defaults which threaten business continuity. Portfolio management at KfW IPEX-Bank evaluates individual, industry and country risk concentrations based on the economic capital concept. Concentrations are measured based on the economic capital (ECAP) commitment. This ensures that both high volumes and unfavourable probabilities of default are taken into account, as are any disadvantageous correlations between the risks.

A risk report is prepared 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.

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

3) 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.

Management of counterparty risk

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

Limit management

The limit management system (LMS) is used primarily to limit default risks. It also allows for the monitoring of individual and concentration risks and correlated overall risks. Limitations are based on a limit anchor value and on the dimensions of borrower unit *(according to the German Banking Act* [KWG]*)* and country. These are supplemented by sector limits for selected sectors. Limits are applied to the net exposure and economic capital variables. Individual limits deviating from standard limits may be defined, taking into account additional criteria such as economic size and growth potential.

Risk guidelines

In addition to the LMS, the credit portfolio is controlled by risk guidelines. For this purpose Risk Management, together with Portfolio Management, proposes specific guidelines based on the current risk situation and the business policy objective. These are approved by the Management Board and must be taken into account by the business sectors when forging business links. Risk guidelines can be applied to all relevant key credit risk data (e. g. maturity, guarantee, rating), while they may also be designed as industry, region and product-specific.

Stress tests

KfW IPEX-Bank carries out stress tests in order to ensure economic and regulatory risk-bearing capacity, even in the event of adverse economic conditions. Stress test scenarios are used to analyse the impact of negative changes in specific risk parameters on the portfolio as a whole or on sub-portfolios.

In addition to global stress tests *(in accordance with the German Solvency Regulation* [SolvV]*)* defined within the scope of ICAAP, the bank performs portfolio-specific, scenario-based stress tests, which are tailored to KfW IPEX-Bank's business model and the risk structure of the portfolio. These stress tests can also be carried out on an overall basis where necessary.

Risks resulting from migration movements (deterioration in ratings) are quantified when carrying out stress tests on credit risks. The results of the stress tests are assessed with regard to the impact on the bank's risk-bearing capacity and taken into consideration when deciding on the risk buffer and risk budget.

Portfolio management

Portfolio management is increasingly helping to improve the risk/return ratio of the KfW IPEX-Bank portfolio by identifying ways to reduce risk and by bringing about decisions in cases where trigger events occur. Portfolio management supports investment activities in order to improve the portfolio structure.

Portfolio management is also included in the annual planning process in order to integrate its risk and portfolio perspective into the strategy process and group business area planning. Furthermore, portfolio management is taken into consideration in the development of appropriate measures to facilitate syndication of individual transactions in the front-office portfolio and creates transparency for the front-office departments as regards the effect of risk mitigation measures on performance.

Portfolio risk committee

In addition to operational cooperation between portfolio management and the front-office departments, a portfolio risk committee (PRC) – a KfW IPEX-Bank committee responsible for management of the portfolio – meets every quarter and is chaired by the member of the Management Board who is responsible for risk management. In its quarterly meetings, the PRC selects which risk mitigation measures to discuss and decides on a new business ban. Furthermore, it 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

Commitments with a considerably higher risk of default (watch list cases) are subjected to intensified loan management. This involves closely monitoring the economic performance of the borrower and examining the transferred collateral on a regular basis (throughout the year). The possibility of restructuring or other remedial action is considered in the case of non-performing loans (NPL). If restructuring/other remedial action is not possible or will not prove worthwhile in view of economic considerations, this leads to liquidation and realisation of collateral. The Special Asset Group processes non-performing loans. In certain cases, it also helps to process commitments subject to intensified loan management. This ensures that specialists are involved at an early stage so as to guarantee comprehensive and professional problem loan management.

There is also an independent task force *("Restrukturierung KG-Schiffe")* which manages and restructures cash flow-based, non-recourse structured ship financing with single-purpose companies organised as a Kommanditgesellschaft, or KG (the German equivalent of a limited partnership). In these structures, some of the classic shipowner roles (equity investors, technical management, commercial management, freighting) are outsourced. The equity required to purchase the ship is collected from private and institutional investors and incorporated into a holding company in the form of limited partnership capital. The investors become shareholders in the limited partnership. There is no recourse against the shipping company. The task force is responsible for processing transactions in this sub-portfolio consistently and in a manner that is focused on preventing or minimising losses.

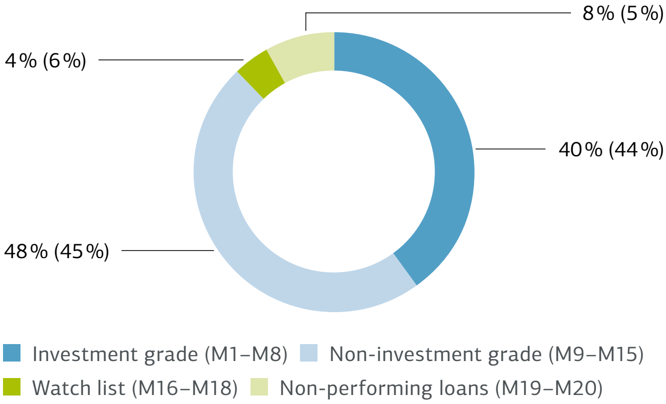
Counterparty risk committee

The counterparty risk committee that convenes every month, chaired by the member of the Management Board in charge of risk control, discusses risk-related developments in the loan 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. The Management Board of KfW IPEX-Bank may have to take decisions in specific cases.

Structure of counterparty risk

Distribution of net exposure by rating class[1]

2012 (2011), Total net exposure: EUR 8.7 billion

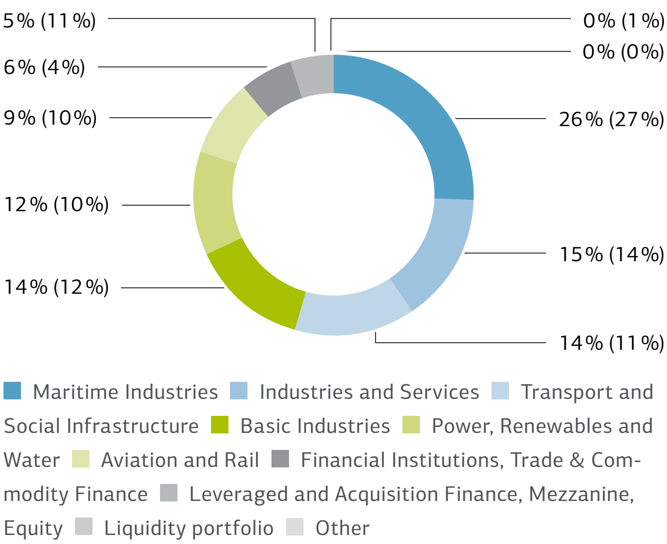


[1] The net exposure for performing loans can be calculated as the maximum function of economic and political net exposure.

Total net exposure is EUR 8.7 billion, with rating classes M1–M8 accounting for 40%. A further 48% falls into rating classes M9–M15. The proportions of watch list and NPL loans amount to 4% and 8% of the net exposure, respectively. The average probability of default of the performing portfolio fell moderately in the 2012 financial year from 1.36% (M12) to 1.29% (M11).

Distribution of economic capital by business sector[1]

2012 (2011), Total ECAP: EUR 1,159 million

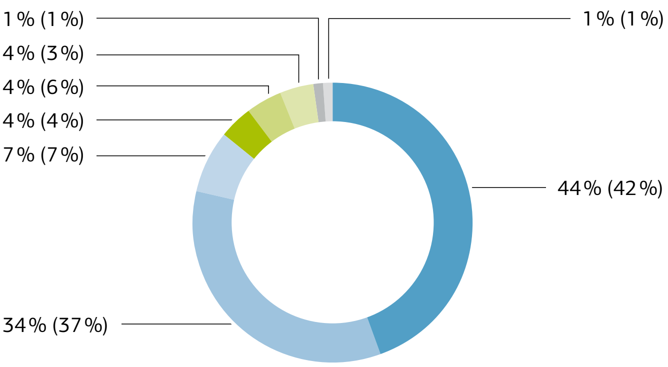


[1] The following business sectors were renamed in 2012 (previous name in parentheses): Maritime Industries (Shipping), Industries and Services (Manufacturing Industries, Retail, Health, Telecommunications), Leveraged and Acquisition Finance, Mezzanine, Equity (Leveraged Finance, Mezzanine and Equity).

This overview reveals the diversification of the portfolio throughout individual business sectors. The largest economic capital commitment is found in the sectors of Maritime Industries (26%) and Industries and Services (15%).

Distribution of economic capital by region

2012 (2011), Total ECAP: EUR 1,159 million



On a regional basis, business is focused on Europe, including Germany. 78 % of the committed economic capital is allocated to the counterparty risk. Overall, country risks are of comparatively minor importance to the bank due to the regional distribution and the collateral.

Risk provisions for counterparty risks

Appropriate account is taken of all identifiable loan default risks in the lending business by creating risk provisions. Specific loan loss provisions or provisions for the lending business increased year-on-year to EUR 643 million as at 31 December 2012. There were some significant changes in individual business sectors due to the bank's conservative risk assessment policy, particularly in the Maritime Industries business sector.

The portfolio of specific loan loss provisions and lending business provisions for disbursed loans, financial guarantees and irrevocable loan commitments, structured according to business sector, was as follows as at 31 December 2012:

Specific loan loss provisions

Business sector[1]	31 Dec. 2012 EUR in millions	31 Dec. 2011 EUR in millions	Change EUR in millions
Maritime Industries	452	221	231
Industries and Services	67	60	7
Aviation and Rail	50	42	8
Leveraged and Acquisition Finance, Mezzanine, Equity	10	38	–28
Basic Industries	25	18	7
Power, Renewables and Water	29	17	12
Transport and Social Infrastructure	10	11	–1
Total	**643**	**407**	**236**

[1] The following business sectors were renamed in 2012 (previous name in parentheses): Maritime Industries (Shipping), Industries and Services (Manufacturing Industries, Retail, Health, Telecommunications), Leveraged and Acquisition Finance, Mezzanine, Equity (Leveraged Finance, Mezzanine, Equity).

Portfolio loan loss provisions as at 31 December 2012 by business sector were as follows:

Portfolio loan loss provisions

Business sector[1)]	31 Dec. 2012 EUR in millions	31 Dec. 2011 EUR in millions	Change EUR in millions
Maritime Industries	31	105	–74
Transport and Social Infrastructure	18	19	–1
Industries and Services	14	13	1
Power, Renewables and Water	11	10	1
Basic Industries	11	11	0
Aviation and Rail	8	9	–1
Financial Institutions, Trade & Commodity Finance	7	6	1
Acquisition Finance, Mezzanine, Equity	2	11	–9
Other	4	8	–4
Total	**106**	**192**	**–86**

[1)] In 2012 the following business sectors were renamed (previous name in parentheses): Maritime Industries (Shipping), Industries and Services (Manufacturing Industries, Retail, Health, Telecommunications), Acquisition Finance, Mezzanine, Equity (Leveraged Finance, Mezzanine, Equity).

Write-downs totalling EUR 1 million (previous year: EUR 15 million) were required on long-term securities during the financial year.

Market price risks

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

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

Interest rate risk and foreign exchange risk

As part of its market risk strategy, the Management Board of KfW IPEX-Bank has decided explicitly to limit the open interest rate risk position to fixed income EUR bonds (of KfW) held in the so-called equity investment portfolio and to the short-term book in which the macro refinancing of variable EUR and USD loans is carried out. In order to prevent concentrations in different maturity bands, the open position in the equity investment portfolio is currently divided almost equally among bonds with maturities of up to five years, measured against cash flow surpluses. The volume of the equity investment portfolio may not exceed the equity shown in the balance sheet of KfW IPEX-Bank. In the case of the remaining long-term interest book (i. e. beyond the equity investment portfolio), interest rate risks must always be avoided as required by the risk strategy. In terms of both fixed income and variable interest items in the remaining interest book beyond the equity investment portfolio, interest rate risks will only be accepted if they can no longer be efficiently hedged. 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 to generate income from exchange rate differences. Individual items relating to indirect foreign exchange risks arising in the course of business are closed, wherever this is possible and economically viable, through refinancing in the same currency or hedging transactions. Any residual risks are largely eliminated at the macro level. In order to stabilise fluctuations in the regulatory capital requirement caused by changes in exchange rates, some USD assets are refinanced using USD equity (reserve in accordance with Section 340 g of the German Commercial Code). This is only carried out to a limited extent for the purpose of stabilising the regulatory risk-bearing capacity, and not to generate short-term income from exchange rate differences. 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 stop-loss buffer and a risk value. The stop-loss buffer is a present value loss that is accepted by the Management Board and may occur within one year. Furthermore, losses in value that may also occur when a position is being closed are measured as the 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 both use a variance/covariance approach, there is a conservative assumption of there being a completely positive correlation between both risks. The following table shows the interest position as well as the measured interest rate and foreign exchange risks as at 31 December 2012.

Present value Interest position	Economic capital for interest rate risk	Economic capital for foreign exchange risk
EUR in millions	EUR in millions	EUR in millions
2,803	82	146

The risk value for interest rate risk shows that the present value of KfW IPEX-Bank's interest position is relatively unaffected by interest rate fluctuations. Even in the worst-case scenario with a confidence level of 99.96%, the loss would amount to less than 3% of the total present value. At 5.2% of the total present value, the potential worst-case loss due to exchange rate fluctuations is also relatively small.

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 income. As at 31 December 2012, the securities portfolio recorded a volume of EUR 2,057 million and included 56 positions. The issuer structure as at the reporting date was as follows:

Issuer	Nominal volume
	EUR in millions
KfW	1,270
Corporates	305
Pfandbrief bonds	232
Financial institutions	152
Asset-backed securities	78
Foreign countries	20
Total	**2,057**

The securities portfolio is composed of the liquidity portfolio, the equity investment portfolio and other securities (in particular securities-based lending). As at 31 December 2012, the nominal values of the entire securities portfolio broke down into the following sub-portfolios:

Sub-portfolio	Nominal volume
	EUR in millions
Equity investment portfolio	1,270
Liquidity portfolio	404
Other securities	383
Total	**2,057**

The liquidity and equity investment portfolios are held in order to meet liquidity requirements within the meaning of Section 11 of the German Banking Act (KWG) in connection with the German Liquidity Regulation *(Liquiditätsverordnung)*. The liquidity portfolio is a phase-out portfolio. The maturities in the liquidity portfolio are reinvested in the equity investment portfolio, which solely contains fixed-income bonds denominated in EUR (issued by KfW).

The economic capital concept is used in order to measure the credit spread risk in the securities portfolio. 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 the credit spreads. The credit spread risk is measured as the value at risk (VaR) on the basis of a historical simulation. The credit spread risk as at 31 December 2012 was EUR 26 million. The risk value for the credit spread risk shows that the potential loss in value of the securities portfolio due to changes in the credit spreads is relatively small, at around 1.3% of the total nominal value.

Liquidity risks

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

Solvency risk

This is the risk of not settling payment obligations at all, on time and/or not to the required extent.

KfW IPEX-Bank's solvency risk is considerably limited by the existing refinancing agreement with KfW. The refinancing agreement guarantees KfW IPEX-Bank access to liquidity through KfW at any time (at conditions in line with the market). In addition to the refinancing agreement, KfW IPEX-Bank has access to the liquidity portfolio and the equity investment portfolio, a credit facility with KfW, and short-term money market investments with KfW in order to ensure that it is at all times sufficiently capable of meeting its payment obligations in accordance with Section 11 of the German Banking Act *(Gesetz über das Kreditwesen – KWG)* in conjunction with the German Liquidity Regulation *(Liquiditätsverordnung).*

KfW IPEX-Bank's liquidity requirements are taken into account at group level in the strategic refinancing planning of KfW. By contrast, 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 indicator in accordance with the German Liquidity Regulation *(Liquiditätsverordnung).* Operational liquidity control is undertaken by the Treasury department of KfW IPEX-Bank based on short, medium- and long-term liquidity planning. In addition, a daily calculation is performed for the liquidity figure of the first term period (remaining terms up to 1 month) in order to keep the figure within a specified target corridor. In the framework of liquidity management, KfW IPEX-Bank's Treasury decides, within a defined management framework, on the measures to be taken to achieve optimum liquidity positions.

Funding cost risk

The bank evaluates funding cost risk in addition to solvency risk. It defines this as the risk that loans are refinanced on less favourable conditions than was assumed at the time they were placed. Funding cost risk also takes into account the risk that funds received from prepaid loans can only be reinvested at less favourable conditions.

Funding cost risk is measured by the liquidity asset value *(Liquiditätsvermögenswert – LVW),* which uses a model to approximate the profit/loss arising from refinancing costs on the liabilities side and refinancing contributions on the assets side. Funding cost risk is quantified by means of changes in the liquid asset value in various scenarios of relevance to the risk situation of KfW IPEX-Bank.

Operational risks

Operational risk is the risk of loss resulting from inadequate or failed internal processes, systems and people or from external events.

This definition includes legal risks. KfW IPEX-Bank mitigates legal risks by involving the internal Legal Affairs department at an early stage and by means of close collaboration with external legal consultants, particularly in the case of commitments abroad.

Reputation risks and strategic risks are not included. Supervisory requirements regarding risk management are derived from the standard approach to operational risks, which KfW IPEX-Bank uses as a basis when calculating the regulatory capital for operational risks, as well as from the Minimum Requirements for Risk Management (MaRisk).

The operational risk strategy forms the framework for dealing with operational risks at KfW IPEX-Bank and is based on the guidelines of KfW (group strategy). For KfW IPEX-Bank, purely operational risks that are not credit-related are partial risks that can easily be quantified.

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

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

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

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

The event database captures and processes operational risk events. This means weaknesses can be identified in business processes and operational risks can be quantified. The database also enables evaluation and electronic historicisation of loss data.

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

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

Concentration risks

Concentration risks represent a form of risk which requires comprehensive observation due to its comprehensive nature. KfW IPEX-Bank differentiates between intra-risk concentrations (within one risk type) and inter-risk concentrations (spanning several risk types).

Intra-risk concentrations are a key factor in classifying concentration risks as significant. These result from business activities in individual sectors, borrower units or countries, as well as from the product catalogue and collateral list. Counterparty risk concentrations in KfW IPEX-Bank's portfolio are restricted by means of limit management. By contrast, concentrations of personal collateral and security in rem in order to mitigate the credit risk are a by-product of the business model of KfW IPEX-Bank as a project and specialist financier. Providers of personal collateral are primarily sovereigns and government institutions (ECAs). The largest concentrations of security in rem are found in the transport sector. Concentrations are monitored and presented during risk reporting.

Due to the international nature of KfW IPEX-Bank's business activities, some income is generated from foreign currency loans. This can lead, for example, to a currency concentration in the USD loan book. In order to prevent the foreign exchange risks associated with this as far as possible, refinancing takes place in the same currency. Accumulated foreign currency margins are converted into euros on a monthly basis.

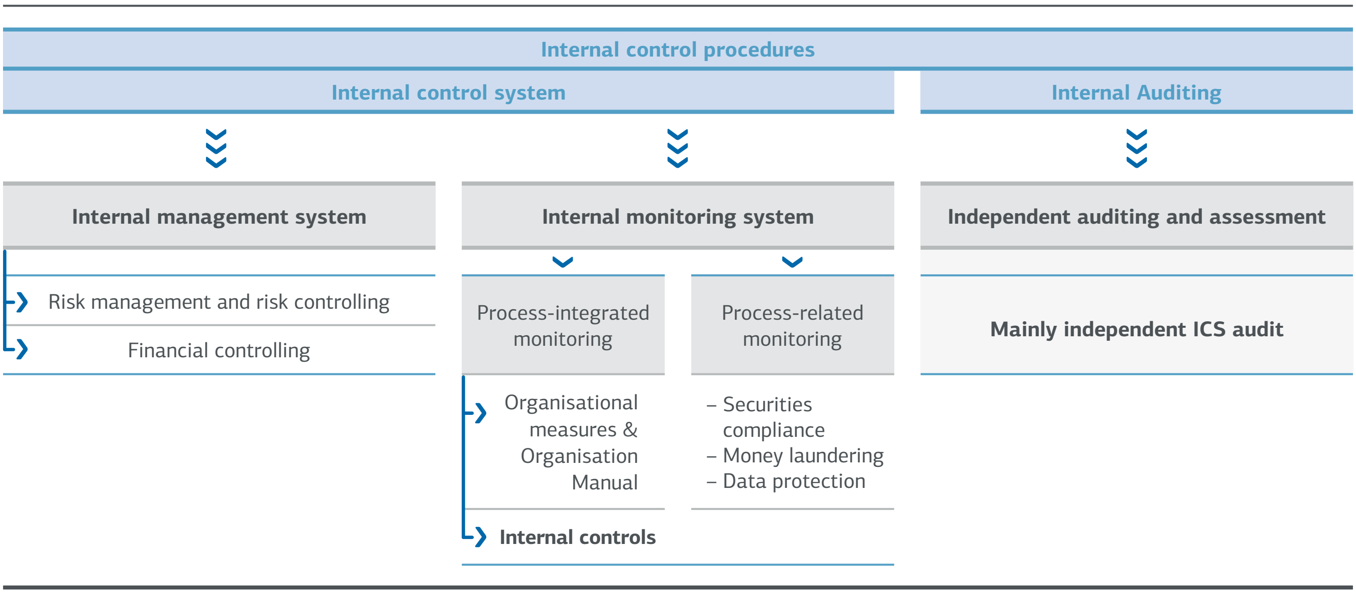
Inter-risk concentrations are less pronounced than intra-concentration risks. At KfW IPEX-Bank, these primarily exist between counterparty risks and operational risks and between foreign exchange risks and counterparty risks.

Internal control procedures

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

The ICS of KfW IPEX-Bank includes the internal management system (regulations for controlling corporate activities) and the entire internal monitoring system (monitoring measures that are integrated into processes or accompany processes).

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 form the procedural rules of KfW IPEX-Bank), serve as the basis for the ICS.



Internal Auditing

The Internal Auditing department is a Management Board instrument. As a body independent of bank processes, it reviews and assesses all processes and activities of KfW IPEX-Bank with regard to their risk features 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 risk management processes within KfW IPEX-Bank and risk management activities which are outsourced. The focus was on risk assessment processes involved in lending and loan management. The audits also looked at the procedures involved in overall bank risk management and the monitoring of outsourced functions.

In its audit reporting Internal Auditing also includes findings from audits carried out by the respective internal auditing departments responsible for these outsourced processes. The Internal Auditing of KfW IPEX-Bank 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, terrorism financing and other criminal activities. There are therefore binding rules and procedures that are continually updated to reflect the latest statutory and regulatory conditions as well as market requirements. Compliance executes 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 Board of Supervisory Directors/Audit Committee based on statutory reporting requirements. KfW IPEX-Bank's independent ICS framework forms the basis for this. In order to ensure group-wide standards to facilitate understanding and standards regarding the 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 based on the COSO model[4].

Monitoring measures integrated into processes help to avoid, 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 effectiveness of which is regularly assessed and reported to the Audit Committee of the Board of Supervisory Directors of KfW IPEX-Bank on an annual basis. The procedures and methods used to assess the effectiveness of these internal controls are based on established processes of the Internal Auditing department. These are geared towards applicable standards (e.g. DIIR, IIA, ISA, IDW)[5].

Accounting-related internal control system

As a further component of the ICS, KfW IPEX-Bank is directly integrated into the accounting-related internal control system of KfW. The fact that key processes of KfW IPEX-Bank are outsourced to KfW is taken into account by defining corresponding process groups within the structure of the internal control system documentation.

Performance of these controls is monitored by the respective body using ICS process control sheets for the purpose of preparing the annual financial statements. The Accounting department of KfW carries out centralised IT-based monitoring of the performance of controls and reports to KfW IPEX-Bank on an annual basis.

Summary

Deliberately entering into and managing risks is an important part of the integrated risk-return management of KfW IPEX-Bank. The methods and systems for identifying, measuring and monitoring risks are in line with statutory and supervisory requirements, correspond to market standards and are updated on a continuous basis.

The organisational and process-related configuration of risk management guarantees that the risk strategy of KfW IPEX-Bank is implemented and complied with.

The bank's risk-bearing capacity was adequate at all times throughout the past financial year. Regulatory requirements on equity capital and reserves were also complied with throughout.

[4] COSO = Committee of Sponsoring Organizations of the Treadway Commission

[5] DIIR = German Institute for Internal Auditing *(Institut für Interne Revision)*, IIA = Institute for Internal Audit, ISA = International Standards on Auditing, IDW = Institute of Public Auditors in Germany *(Institut der Wirtschaftsprüfer)*

Forecast Report

The world economy is expected to show some signs of recovery in 2013, following the slowdowns of 2011 and 2012. This forecast is based on the assumption that economic output in the euro area does not shrink further in 2013. Growth should thus increase slightly across the entire group of industrialised countries, although the outlook for the third largest world economy, Japan, is not particularly favourable. In 2013, as previously, the main risks for the world economy (the crisis in the euro area, public debt in Japan) are to be found in industrialised countries.

Developing and emerging countries will keep growing faster than the global average in 2013, and continue to be drivers of the world economy. Nevertheless, they are a long way from regaining their momentum of previous years. Ambitious emerging countries in particular find not just their exports affected by the euro crisis: home-grown weaknesses such as infrastructure deficits and lack of reform are also causing problems.

Overall, it is likely that demand for exports from Germany and Europe, and for their financing, will remain stable. As a result of the protracted sovereign debt and financial crisis, however, some of KfW IPEX-Bank's competitors will still experience refinancing difficulties. In 2013 therefore, the supply of long-term financing in the banking market will remain selective.

Against this background KfW IPEX-Bank aims to strengthen its position as a leading specialist financier and stable partner of the German and European economies. Ongoing growth in developing and emerging countries offers further sources of business potential for German and European companies. At the same time, however, these companies are finding that competition from emerging countries is growing ever stronger, and value creation is increasingly moving away from Germany and Europe into these countries. Offering support to companies in the face of these changes by financing exports and foreign investment continues to be a key focus for the bank.

KfW IPEX-Bank believes that it has good prospects in financing power, renewables and water projects, as well as in commitments in the Basic Industries sector, and in Financial Institutions, Trade & Commodity Finance. The bank continues to take on new business in the area of asset financing at the same level as previously, on a selective basis and backed by good collateral. In regional terms, the focus will primarily be on markets that play a special role for the German export economy. Together with European countries, these include, in particular, the emerging economies in Asia and Latin America.

Future plans involve increasing marketing and further developing the product portfolio to tap into new customer groups for financing in this area of business. In addition, the bank intends to maintain its strategic focus while continuing to win a large proportion of customised financing and an increasing share of new business in climate and environmental protection. KfW IPEX-Bank plans a new business volume for 2013 of EUR 13.1 billion, slightly above the previous year's level. For 2014, a new business volume of a similar or, if market conditions are favourable, slightly higher level is expected. This target is subject to the customary forecasting uncertainty arising from the unpredictability of major influencing factors that determine the course of the bank's business.

This uncertainty also applies to the forecast result for 2013, which will depend largely on the extent of the risk provisions required. In view of overcapacity in shipping, which is only declining very slowly, we expect the crisis to continue until 2014/2015. Against this background, the bank is only planning for low growth in the Maritime Industries business sector in 2013; this should mainly be achieved through investments by the offshore industry (oil, gas and wind power) and cruise ships.

As a result of Basel III the minimum requirements regarding capital resources are to become more stringent. In reaction to the stricter minimum requirements for capital resources that will be in force in the future, KfW IPEX-Bank and KfW have jointly determined an approach to capital that is in the process of being implemented. This means that the bank is already meeting the capital ratios required for the future. In addition, by carrying out projects regularly reviewing capital structure and the technical implementation of Basel III, KfW IPEX-Bank ensures that the requirements will also continue to be met in the future. The necessary measures for implementing the fourth MaRisk amendment are under way and will be completed without delay.

Corporate Governance Declaration

KfW IPEX-Bank recognises the principles of the German Public Corporate Governance Code (PCGC). A declaration of compliance with the recommendations of the PCGC is included in the Corporate Governance Report of KfW IPEX-Bank.

Financial statements of KfW IPEX-Bank GmbH 2012

Balance sheet of KfW IPEX-Bank GmbH as at 31 December 2012

Assets

		31 Dec. 2012			31 Dec. 2011		
	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands
1. Cash reserves							
a) cash on hand			6			6	
b) funds with central banks			0			0	
of which: at the Deutsche Bundesbank	*0*						
c) funds at postal giro offices			0	**6**		0	6
2. Loans and advances to banks							
a) due on demand			223,435			51,140	
b) other loans and advances			482,451	**705,886**		319,158	370,298
3. Loans and advances to customers				**20,404,740**			**21,205,164**
of which: secured by charges on property	*0*						
of which: municipal loans	*693,563*						
4. Bonds and other fixed-income securities							
a) money market instruments							
aa) of public issuers		0			0		
of which: eligible as collateral with the Deutsche Bundesbank	*0*						
ab) of other issuers		0	0		0	0	
of which: eligible as collateral with the Deutsche Bundesbank	*0*						
b) bonds and notes							
ba) of public issuers		20,816			77,196		
of which: eligible as collateral with the Deutsche Bundesbank	*20,816*						
bb) of other issuers		2,026,749	2,047,565		2,003,942	2,081,138	
of which: eligible as collateral with the Deutsche Bundesbank	*1,837,458*						
c) own bonds			0	**2,047,565**		0	2,081,138
nominal value	0						
5. Shares and other non-fixed-income securities				**8,614**			**8,365**
6. Investments				**132,201**			**122,136**
of which: in banks	*360*						
of which: in financial service institutions	*0*						
7. Assets held in trust				**22,969,914**			**22,576,450**
of which: loans held in trust	*22,924,349*						
8. Intangible assets							
a) internally generated industrial property rights and similar rights and assets			0			0	
b) purchased concessions, industrial property rights and similar rights and assets and licences to such rights and assets			165			247	
c) goodwill			0			0	
d) payments on account			0	**165**		0	247
9. Property, plant and equipment				**407**			**395**
10. Other assets				**52,588**			**12,948**
11. Prepaid expenses and deferred charges				**12,742**			**16,125**
Total assets				**46,334,828**			**46,393,272**

Liabilities and equity

		31 Dec. 2012			31 Dec. 2011		
	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands
1. Liabilities to banks							
a) due on demand			50,141			167,600	
b) with agreed term or period of notice			18,064,010	**18,114,151**		18,279,901	18,447,501
2. Liabilities to customers							
a) savings deposits			0			0	
b) other liabilities							
ba) due on demand		81			8		
bb) with agreed term or period of notice		511,329	511,410	**511,410**	373,559	373,567	373,567
3. Liabilities held in trust				**22,969,914**			**22,576,450**
of which: loans held in trust	*22,924,349*						
4. Other liabilities				**18,207**			**41,709**
5. Deferred income				**24,710**			**27,573**
6. Provisions							
a) provisions for pensions and similar commitments			76,486			68,572	
b) tax provisions			13,393			10,363	
c) other provisions			68,933	**158,812**		110,858	189,793
7. Subordinated liabilities				**1,136,880**			**1,344,772**
8. Profit participation capital				**0**			**502,357**
of which: due within two years	*0*						
9. Fund for general banking risks				**294,202**			**300,000**
10. Equity							
a) called capital							
subscribed capital		2,100,000			2,100,000		
less uncalled outstanding contributions		0	2,100,000		0	2,100,000	
b) capital reserves			949,992			449,992	
c) retained earnings							
ca) legal reserve		0			0		
cb) reserve for shares in an enterprise in which KfW IPEX-Bank GmbH holds a controlling or majority stake		0			0		
cc) statutory reserve		0			0		
cd) other retained earnings		39,558	39,558		39,558	39,558	
d) balance sheet profit			16,992	**3,106,542**		0	2,589,550
Total liabilities and equity				**46,334,828**			**46,393,272**
1. Contingent liabilities							
a) from the endorsement of rediscounted bills		0			0		
b) from financial guarantees		2,051,821			2,235,444		
c) assets pledged as collateral on behalf of third parties		0	2,051,821		0	2,235,444	
2. Other obligations							
a) commitments deriving from sales with an option to repurchase		0			0		
b) placing and underwriting commitments		0			0		
c) irrevocable loan commitments		5,895,754	5,895,754		5,539,751	5,539,751	

Income statement of KfW IPEX-Bank GmbH from 1 January 2012 to 31 December 2012

Expenses

		1 Jan.–31 Dec. 2012			1 Jan.–31 Dec. 2011		
	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands
1. Interest expense				**407,597**			423,583
2. Commission expense				**1,421**			1,072
3. Administrative expense							
a) personnel expense							
aa) wages and salaries		59,924			56,943		
ab) social insurance contributions, expense for pension provision and other employee benefits		11,295	71,219		10,853	67,796	
of which: for pension provision	5,153						
b) other administrative expense			71,568	**142,787**		69,066	136,862
4. Depreciation and impairment on property, plant and equipment and intangible assets				**214**			274
5. Other operating expense				**23,316**			20,820
6. Write-downs of and value adjustments on loans and certain securities and increase of loan loss provisions				**249,825**			5,377
7. Appropriation to the fund for general banking risks				**0**			150,000
8. Write-downs of and value adjustments on investments, shares in affiliated enterprises and securities treated as fixed assets				**0**			28,624
9. Taxes on income				**9,468**			48,671
10. Net income for the year				**16,992**			30,148
Total expenses				**851,620**			**845,431**
1. Net income for the year				**16,992**			30,148
2. Allocations to other retained earnings				**0**			(30,148)
Balance sheet profit				**16,992**			**0**

Income

		1 Jan.–31 Dec. 2012			1 Jan.–31 Dec. 2011		
	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			634,071			627,480	
b) fixed-income securities and debt register claims			35,333	**669,404**		42,659	670,139
2. Current income from							
a) shares and other non-fixed-income securities			920			917	
b) investments			1,829			2,974	
c) shares in affiliated enterprises			0	**2,749**		0	3,891
3. Commission income				**156,756**			154,887
4. Reductions of the fund for general banking risks				**5,798**			0
5. Earnings on allocations to investments, shares in affiliated enterprises and securities treated as fixed assets				**6,094**			0
6. Other operating income				**10,819**			16,514
Total income				**851,620**			**845,431**

Notes

Accounting and valuation regulations

The individual financial statements of KfW IPEX-Bank GmbH have been drawn up in accordance with the requirements of the German Commercial Code *(Handelsgesetzbuch – HGB)*, the Ordinance Regarding the Accounting System for Banks *(Kreditinstituts-Rechnungslegungsverordnung – RechKredV)* and the Limited Liability Companies Act *(Gesetz betreffend die Gesellschaften mit beschränkter Haftung – GmbHG)*. Statements on individual items in the balance sheet, which may be in either the balance sheet or in the notes, are provided in the Notes.

The cash reserves, loans and advances to banks and customers, and the other assets are recognised at cost, par or at a lower fair value in accordance with the lower of cost or market principle. Differences between par values and lower disbursement amounts of loans and advances have been included in deferred income.

Securities held under current assets are valued strictly at the lower of cost or market. Insofar as these securities are pooled together with derivative financial instruments to make a valuation unit for hedging interest rate risks, then the valuation has been performed at amortised cost – to the extent that compensating effects existed in the underlying and hedging transactions.

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

No securities have been allocated to the trading stock.

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

Property, plant and equipment are reported at acquisition or production cost, reduced by ordinary depreciation in accordance with the expected useful life of the items. Additions and disposals of capital assets during the course of the year are depreciated pro rata temporis according to tax regulations. A compound item is set up for low-value fixed assets with purchase costs of more than EUR 150 and up to EUR 1,000, which is depreciated on a straight-line basis over five years.
The statutory write-ups are made for all assets in accordance with Section 253 (5) of the German Commercial Code (HGB).

Liabilities are recognised at their repayment value. Differences between agreed higher repayment amounts and issue amounts have been included in Prepaid expenses and deferred charges.

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

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

	31 Dec. 2012
	in % p. a.
Interest rate for accounting purposes	5.04
Projected unit credit dynamics[1)]	1.00 to 3.00
Index-linking of pensions[2)]	1.00 to 2.50
Staff turnover rate[3)]	0 to 5.00

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

Other provisions are recognised at their expected recourse value. Provisions with a residual term of more than one year are, in principle, discounted to the balance sheet date using market interest rates published by the Deutsche Bundesbank.

KfW IPEX-Bank exercises the option under Section 274 (1) of the German Commercial Code (HGB) not to recognise a net deferred tax asset resulting from the offsetting of deferred tax assets and liabilities. In this instance deferred tax liabilities of EUR 2 million were offset against deferred tax assets. The deferred tax liability is attributable to accounting and valuation differences relating to the reporting of investments.

Sufficient allowance has been made for risks arising from the lending business. The risk provisions portfolio for the lending business recognised in the balance sheet is made up of specific loan loss provisions affecting net income (the amount corresponds to the difference between the carrying amount of the loan, the present value of the expected returns from interest and repayments as well as the payment streams from securities) and portfolio loan loss provisions for loans and advances without specific loan loss provisions. In addition, risk provisions are allocated for contingent liabilities and irrevocable loan commitments, both for individually established risks (specific loan loss provisions) and for impairments that have not yet been identified individually (portfolio loan loss provisions). Additions and reversals are reported net under Write-downs of and impairments on loans and advances and certain securities and increase of loan loss provisions. Use is made in the income statement of options to offset pursuant to Section 340 c (2) and Section 340 f (3) of the German Commercial Code (HGB). Interest income on non-performing loans is recognised in principle on the basis of expectation.

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

Valuation of interest rate-related transactions in the banking book *("Refinanzierungsverbund")* reflects KfW IPEX-Bank's interest rate risk management. The principle of prudence, required under the German Commercial Code (HGB), is taken into account by establishing a provision in accordance with Section 340 a in conjunction with Section 249 (1) sentence 1, 2nd alternative of the Code for a potential excess liability arising from the valuation of the interest-driven banking book. The requirements of accounting practice statement BFA 3 issued by the Banking Panel of Experts *(Bankenfachausschuss – BFA)* of the Institute of Public Auditors in Germany *(Institut der Wirtschaftsprüfer in Deutschland – IDW)*, relating to loss-free valuation of the banking book, are fully recognised. In order to determine a potential excess liability 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 to the extent of expected losses. No such provision for anticipated losses was required in the reporting year.

All additions to and withdrawals from the fund for general banking risks appear as separate items in the income statement in accordance with Section 340 g of the German Commercial Code (HGB) (adjustment of prior-year figures due to exchange rate effects in "Other operating expense" and "Appropriation to the fund for general banking risks").

Group affiliation

No consolidated financial statements are to be prepared. KfW IPEX-Bank is included in the consolidated financial statements of the 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

		Maturity with agreed term or period of notice					
	Due on demand	Up to 3 months	More than 3 months to 1 year	More than 1 year to 5 years	More than 5 years	Pro rata interest	Total
	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands
Loans and advances to banks	223,435	111,962	289,823	49,431	24,586	6,649	705,886
(as at 31 Dec. 2011)	*51,140*	*45,180*	*192,560*	*48,936*	*21,386*	*11,096*	*370,298*
Loans and advances to customers	0	837,914	3,002,883	9,601,527	6,875,163	87,253	20,404,740
(as at 31 Dec. 2011)	*0*	*902,731*	*2,709,480*	*10,716,954*	*6,780,699*	*95,300*	*21,205,164*
Total	**223,435**	**949,876**	**3,292,706**	**9,650,958**	**6,899,749**	**93,902**	**21,110,626**
(as at 31 Dec. 2011)	*51,140*	*947,911*	*2,902,040*	*10,765,890*	*6,802,085*	*106,396*	*21,575,462*
in %	**1**	**4**	**16**	**46**	**33**	**0**	**100**

	Loans and advances to		
	Banks	Customers	Total
of which to:	EUR in thousands	EUR in thousands	EUR in thousands
Shareholders	0	0	**0**
Affiliated enterprises	260,098	138,132	**398,230**
Enterprises in which KfW IPEX-Bank holds a stake	0	42,582	**42,582**
Subordinated assets	0	94,888	**94,888**

Prior-year figures have been adjusted (31 December 2012: EUR 693.6 million, 31 December 2011: EUR 381.1 million) due to technical changes in 2012 to the system for determining municipal loans.

Bonds and other fixed-income securities

Listed/marketable securities

	31 Dec. 2012 EUR in thousands	31 Dec. 2011 EUR in thousands
Listed securities	2,047,565	2,081,138
Unlisted securities	0	0
Marketable securities	**2,047,565**	**2,081,138**

The "Bonds and other fixed-income securities" item totalling EUR 2,048 million (previous year: EUR 2,081 million) contains securities of KfW as an affiliated enterprise amounting to EUR 1,293 million (previous year: EUR 839 million). The portfolio includes securities amounting to EUR 715 million (previous year: EUR 588 million) which fall due during the year following the balance sheet date. In addition it includes subordinated securities in accordance with Section 4 of the Ordinance Regarding the Accounting System for Banks *(Kreditinstituts-Rechnungslegungsverordnung – RechKredV)* of EUR 15 million.

Shares and other non-fixed-income securities

	31 Dec. 2012 EUR in thousands	31 Dec. 2011 EUR in thousands
Listed securities	8,614	8,365
Unlisted securities	0	0
Marketable securities	8,614	**8,365**

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

Fixed assets

	Changes 2012[1)] EUR in thousands	Residual book value 31 Dec. 2012 EUR in thousands	Residual book value 31 Dec. 2011 EUR in thousands
Shares and other non-fixed-income securities	249	8,614	8,365
of which: included in valuation units within the meaning of Section 254 of the German Commercial Code (HGB)	*249*	*8,614*	*8,365*
Investments	10,065	132,201	122,136
Bonds and other fixed-income securities	–5,103	2,011,368	2,016,471
of which: included in valuation units within the meaning of Section 254 of the German Commercial Code (HGB)	*–185,835*	*475,155*	*660,990*
Total	**5,211**	**2,152,183**	**2,146,972**

1) Including exchange rate changes

	Purchase/ production costs	Additions	Disposals	Transfers	Alloca-tions	Depreciation/ impairment		Residual book value	Residual book value
						Total	2012	31 Dec. 2012	31 Dec. 2011
	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands
Intangible assets	421	0	7	0	0	249	82	165	247
Property, plant and equipment[2)]	1,504	143	707	0	0	533	131	407	394
Sum	**1,925**	**143**	**714**	**0**	**0**	**782**	**213**	**572**	**641**
Total								**2,152,755**	**2,147,613**

2) Of which: as at 31 December 2012: – total value of plant and equipment EUR 407 thousand
– total value of land and buildings used for the bank's activities EUR 0 thousand

Both bonds and other fixed-income securities as well as shares and other non-fixed-income securities intended as a permanent part of business operations have been included under fixed assets.

Bonds and other fixed-income securities held under fixed assets have been valued in accordance with the moderate lower of cost or market principle. As a result, with two exceptions where there has been a permanent reduction in value, it has been possible to avoid write-downs of EUR 11 million on these securities, since a recovery is expected before their maturity date.

The book value of securities valued using the moderate lower of cost or market principle for which write-downs have been avoided totals EUR 355 million, the corresponding fair value of these securities (including the underlying swaps) is EUR 344 million.

The book value of the marketable securities not valued at the lower of cost or market totals EUR 2,011 million.

Disclosures on shareholdings

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

	Disclosures on shareholdings	Capital share	Equity	Net income for the year
		in %	EUR in thousands	EUR in thousands
1.	Railpool GmbH, Munich	50.0	3,842	1,765
2.	MD Capital Beteiligungsgesellschaft mbH, Düsseldorf[1)]	50.0	1,741	–456
3.	Railpool Holding GmbH & Co. KG, Munich	50.0	–8,152	–6,410
			USD in thousands	USD in thousands
4.	Sperber Rail Holdings Inc., Wilmington, USA[1)]	100.0	n/a	n/a
5.	Canas Leasing Ltd., Dublin, Ireland[1)]	50.0	n/a	n/a
6.	8F Leasing S.A., Luxembourg	22.2	n/a	n/a

[1)] Figures only available as at 31 Dec. 2011

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

Assets held in trust

	31 Dec. 2012	31 Dec. 2011	Change
	EUR in thousands	EUR in thousands	EUR in thousands
Loans and advances to banks			
a) due on demand	0	0	0
b) other loans and advances	1,557,984	1,280,648	277,336
Loans and advances to customers	21,366,366	21,255,186	111,180
Investments	45,564	40,616	4,948
Shares	0	0	0
Total	**22,969,914**	**22,576,450**	**393,464**

Total assets held in trust, recorded on the balance sheet at EUR 23.0 billion (previous year: EUR 22.6 billion), incorporate trust business with KfW amounting to EUR 22.8 billion (previous year: EUR 22.5 billion). In addition, EUR 136 million (previous year: EUR 31 million) relates to loan business that is administered on a trust basis by KfW IPEX-Bank for third parties (outside the Group) and is legally owned by KfW IPEX-Bank.

Other assets

Other assets totalling EUR 53 million (previous year: EUR 13 million) chiefly relate to loans and advances to the financial authorities resulting from tax prepayments and tax refund claims amounting to EUR 48 million (previous year: EUR 12 million).

Prepaid expenses and deferred charges

Prepaid expenses and deferred charges include in particular upfront interest payments from swaps amounting to EUR 8 million (previous year: EUR 8 million) and accrued discounts from promissory note loans with KfW amounting to EUR 4 million (previous year: EUR 4 million).

Notes on liabilities

Liabilities to banks and customers

Maturities structure of liabilities

	Due on demand	Maturity with agreed term or period of notice: Up to 3 months	More than 3 months to 1 year	More than 1 year to 5 years	More than 5 years	Pro rata interest	Total
	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands
Liabilities to banks	50,141	3,656,607	3,238,010	7,900,658	3,155,916	112,819	18,114,151
(as at 31 Dec. 2011)	*167,600*	*3,534,657*	*3,632,937*	*8,642,563*	*2,343,332*	*126,412*	*18,447,501*
Liabilities to customers – Other liabilities	81	292,636	60,180	67,056	87,594	3,863	511,410
(as at 31 Dec. 2011)	*8*	*207,851*	*68,585*	*16,354*	*75,364*	*5,405*	*373,567*
Total	**50,222**	**3,949,243**	**3,298,190**	**7,967,714**	**3,243,510**	**116,682**	**18,625,561**
(as at 31 Dec. 2011)	*167,608*	*3,742,508*	*3,701,522*	*8,658,917*	*2,418,696*	*131,817*	*18,821,068*
in %	**0**	**21**	**18**	**43**	**17**	**1**	**100**

	Liabilities to		
	Banks	Customers	Total
of which to:	EUR in thousands	EUR in thousands	EUR in thousands
Shareholders	0	0	0
Affiliated enterprises	18,071,319	0	18,071,319
Enterprises in which KfW IPEX-Bank holds a stake	0	480	480

Liabilities held in trust

	31 Dec. 2012	31 Dec. 2011	Change
	EUR in thousands	EUR in thousands	EUR in thousands
Liabilities to banks			
a) due on demand	0	0	0
b) with agreed term or period of notice	22,839,408	22,552,885	286,523
Liabilities to customers			
a) savings deposits	0	0	0
b) other liabilities			
ba) due on demand	0	0	0
bb) with agreed term or period of notice	130,506	23,565	106,941
Total	**22,969,914**	**22,576,450**	**393,464**

Other liabilities
Other liabilities totalling EUR 18 million (previous year: EUR 42 million) chiefly include the balancing items for foreign currency translation of derivative hedges totalling EUR 15 million (previous year: EUR 6 million), pro rata interest for subordinated liabilities amounting to EUR 1 million (previous year: EUR 3 million) as well as liabilities to the financial authorities amounting to EUR 1 million (previous year: EUR 1 million).

Subordinated liabilities
KfW has granted KfW IPEX-Bank subordinated loans amounting to USD 1,500 million with the following contractual conditions:

	Amount in millions	Currency	Interest rate	Maturity date
1.	500	USD	3-month USD LIBOR + 0.85% p.a. Loan was terminated as per 31 Jan. 2013	31 Jan. 2013
2.	500	USD	3-month USD LIBOR + 0.85% p.a.	31 Dec. 2017
3.	500	USD	3-month USD LIBOR + 0.85% p.a., premium increases by 0.5% to + 1.35% p.a. if KfW IPEX-Bank does not terminate the loan as per 28 February 2015	31 Dec. 2019

A further subordinated loan of USD 240 million was repaid to KfW ahead of schedule on 2 April 2012 as part of the process of implementing the capital measures required to conform with future regulatory provisions.

Interest payments are made quarterly at different interest payment dates. KfW IPEX-Bank is not obliged to repay the subordinated loans ahead of schedule. The conditions for the subordination of these funds correspond to the requirements of Section 10 (5a) of the German Banking Act *(Gesetz über das Kreditwesen – KWG)*.

Interest expense for subordinated loans in 2012 amounted to the equivalent of EUR 17 million (previous year: EUR 19 million).

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

Profit participation rights
As part of the process of implementing the capital measures required to conform with future regulatory provisions, profit participation capital granted by KfW Beteiligungsholding GmbH in the sum of USD 650 million was repaid ahead of schedule on 2 April 2012.

For 2012, interest expense for the profit participation capital amounted overall to EUR 8 million.

Provisions
As well as provisions for pensions and similar commitments totalling EUR 76 million (previous year: EUR 69 million) and provisions for taxes amounting to EUR 13 million (previous year: EUR 10 million), additional provisions amounting to EUR 69 million (previous year: EUR 111 million) were recognised as at 31 December 2012. The latter related in particular to provisions for credit risks amounting to EUR 36 million and liabilities to staff totalling EUR 17 million.

Deferred income

Deferred income totalling EUR 25 million (previous year: EUR 28 million) chiefly comprises discounts from receivables purchases amounting to EUR 18 million (previous year: EUR 23 million) as well as upfront interest payments from swaps that have been received but do not yet impact on income amounting to EUR 7 million (previous year: EUR 4 million).

Other required disclosures on liabilities and equity

Contingent liabilities

Business sector[1]	31 Dec. 2012 EUR in millions	31 Dec. 2011 EUR in millions	Change EUR in millions
Power, Renewables and Water	892	861	31
Aviation and Rail	345	287	58
Maritime Industries	251	230	21
Industries and Services	175	392	–217
Transport and Social Infrastructure	168	128	40
Basic Industries	156	162	–6
Financial Institutions, Trade & Commodity Finance	51	144	–93
Leveraged and Acquisition Finance, Mezzanine, Equity	14	31	–17
Total	**2,052**	**2,235**	**–183**

[1] The following business sectors were renamed in 2012 (previous name in parentheses): Maritime Industries (Shipping), Industries and Services (Manufacturing Industries, Retail, Health, Telecommunications), Leveraged and Acquisition Finance, Mezzanine, Equity (Leveraged Finance, Mezzanine, Equity).

The new guarantees given in the 2012 financial year amounted to EUR 197 million. In contrast, a total of EUR 380 million was redeemed.

Irrevocable loan commitments

Business sector[1]	31 Dec. 2012 EUR in millions	31 Dec. 2011 EUR in millions	Change EUR in millions
Industries and Services	1,122	982	140
Maritime Industries	1,002	753	249
Power, Renewables and Water	953	1,018	–65
Aviation and Rail	893	691	202
Transport and Social Infrastructure	767	867	–100
Basic Industries	735	609	126
Financial Institutions, Trade & Commodity Finance	389	324	65
Leveraged and Acquisition Finance, Mezzanine, Equity	35	296	–261
Total	**5,896**	**5,540**	**356**

[1] The following business sectors were renamed in 2012 (previous name in parentheses): Maritime Industries (Shipping), Industries and Services (Manufacturing Industries, Retail, Health, Telecommunications), Leveraged and Acquisition Finance, Mezzanine, Equity (Leveraged Finance, Mezzanine, Equity).

Total irrevocable loan commitments as at 31 December 2012 stood at EUR 5,896 million. The risks from these transactions are taken into account by creating portfolio loan loss provisions and individual loan loss provisions.

Required disclosures on the income statement

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

In the 2012 financial year the income from Frankfurt am Main and London was as follows:

	31 Dec. 2012			31 Dec. 2011			Change		
	Frankfurt	London	Total	Frankfurt	London	Total	Frankfurt	London	Total
	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands
Interest income	642,332	27,072	669,404	648,338	21,801	670,139	–6,006	5,271	–735
Current income from									
a) Shares and other non-fixed-income securities	920	0	920	917	0	917	3	0	3
b) Investments	1,829	0	1,829	2,974	0	2,974	–1,145	0	–1,145
c) Shares in affiliated enterprises	0	0	0	0	0	0	0	0	0
Commission income	150,141	6,615	156,756	150,390	4,497	154,887	–249	2,118	1,869
Other operating income	5,898	4,921	10,819	12,268	4,246	16,514	–6,370	675	–5,695
Total	**801,120**	**38,608**	**839,728**	**814,887**	**30,544**	**845,431**	**–13,767**	**8,064**	**–5,703**

Other operating expenses

Other operating expenses amount to EUR 23 million (previous year: EUR 21 million). They mainly include realised and unrealised exchange losses from foreign currency valuation, in each case totalling EUR 9 million, and the expense for the banking levy of EUR 5 million.

Other operating income

Other operating income amounting to EUR 11 million (previous year: EUR 17 million) chiefly relates to unrealised exchange gains from foreign currency valuation totalling EUR 5 million, and income for services provided to group companies amounting to EUR 3 million.

Taxes on income

The taxes on income item totalling EUR 9 million (previous year: EUR 49 million) is made up of corporate income tax/capital gains tax plus a solidarity surcharge totalling EUR 7 million, and trade tax of EUR 2 million.

Other required disclosures

Assets and liabilities denominated in foreign currency

Assets and liabilities denominated in foreign currency as well as cash transactions that were not settled by the balance sheet date were converted into euros at the foreign exchange rates applicable as at 31 December 2012.

Expenses and income resulting from currency conversions have been included in other operating income; the imparity principle *(Imparitätsprinzip)* has been observed.

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

As at 31 December 2012 total assets denominated in foreign currency converted in accordance with Section 340 h in conjunction with Section 256 a of the German Commercial Code (HGB) amounted to EUR 23.6 billion (previous year: EUR 24.6 billion), of which EUR 11.3 billion related to loans and advances to customers and EUR 11.6 billion to assets held in trust.

Total liabilities denominated in foreign currency amounted to EUR 23.6 billion (previous year: EUR 25.0 billion), of which EUR 10.0 billion relates to liabilities to banks and EUR 11.6 billion to liabilities held in trust.

Other financial liabilities

Total payment obligations arising in connection with equity finance transactions amounted to EUR 45 million (previous year: EUR 58 million).

In individual cases, KfW IPEX-Bank employees perform certain functions on bodies of companies in which KfW IPEX-Bank holds investments or with which it maintains another, relevant kind of creditor relationship. The risks resulting in connection with these functions are covered by liability insurance for monetary damages (D&O 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 the KfW Group.

Valuation units

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 at the balance sheet date are listed below.

	Nominal value		Carrying amount		Fair value	
	31 Dec. 2012	31 Dec. 2011	31 Dec. 2012	31 Dec. 2011	31 Dec. 2012	31 Dec. 2011
	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	461	643	475	661	483	666
Shares and other non-fixed-income securities	11	11	9	8	10	9
Liquidity reserve						
Bonds and other fixed-income securities	35	64	36	65	37	67
Total	**507**	**718**	**520**	**734**	**530**	**742**

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

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

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

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

In connection with the hedging of interest rate risks in the banking book, derivative financial instruments and interest-bearing underlying transactions used for this purpose form part of the asset/liability management, along with valuation units in accordance with Section 254 of the German Commercial Code (HGB). KfW IPEX-Bank manages the market value of all interest-bearing transactions in the banking book as one unit. As at 31 December 2012 there was a positive present value.

Derivatives reporting

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

1. Interest rate-related forward transactions/derivative products
   – Interest rate swaps

2. Currency-related forward transactions/derivative products
   – Cross-currency swaps
   – FX swaps
   – FX forward transactions

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

In the following table, the calculation of market values for all contract types is based on the market valuation method. It discloses the positive and negative market values of derivative positions as at 31 December 2012.

Derivative transactions – volumes

	Nominal values		Fair values positive	Fair values negative
	31 Dec. 2012	31 Dec. 2011	31 Dec. 2012	31 Dec. 2012
	EUR in millions	EUR in millions	EUR in millions	EUR in millions
Contracts with interest rate risks				
Interest rate swaps	12,467	12,164	643	890
Total	**12,467**	**12,164**	**643**	**890**
Contracts with currency risks				
Cross-currency swaps	648	380	4	29
FX swaps	13	51	0	0
FX forward transactions	2	2	0	0
Total	**663**	**433**	**4**	**29**
Share and other price risks	**0**	**0**	**0**	**0**
Credit derivatives	**0**	**0**	**0**	**0**
Total	**13,130**	**12,597**	**647**	**919**

Derivative transactions – maturities

	Interest rate risks		Currency risks		Credit derivatives	
	31 Dec. 2012 EUR in millions	31 Dec. 2011 EUR in millions	31 Dec. 2012 EUR in millions	31 Dec. 2011 EUR in millions	31 Dec. 2012 EUR in millions	31 Dec. 2011 EUR in millions
Maturity						
up to 3 months	352	253	54	32	0	0
more than 3 months to 1 year	1,259	637	50	42	0	0
more than 1 year to 5 years	4,782	5,546	535	321	0	0
more than 5 years	6,074	5,728	24	38	0	0
Total	**12,467**	**12,164**	**663**	**433**	**0**	**0**

Derivative transactions – counterparties

	Nominal values		Fair values positive	Fair values negative
	31 Dec. 2012 EUR in millions	31 Dec. 2011 EUR in millions	31 Dec. 2012 EUR in millions	31 Dec. 2012 EUR in millions
Counterparties				
OECD banks	8,550	8,405	11	914
Non-OECD banks	0	0	0	0
Other counterparties	4,552	4,192	631	5
Public sector	28	0	5	0
Total	**13,130**	**12,597**	**647**	**919**

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 9,459 million as at 31 December 2012 (previous year: EUR 7,981 million). In addition, financial guarantees amounting to EUR 68 million (previous year: EUR 33 million) were administered.

	31 Dec. 2012 EUR in millions	31 Dec. 2011 EUR in millions	Change EUR in millions
Market business	3,444	3,208	236
Trust business[1]	6,015	4,773	1,242
Total	**9,459**	**7,981**	**1,478**

[1] Including EUR 892 million of refinancing for CIRR ship financings by third-party banks (previous year: EUR 580 million)

These loans relate to syndicated loans, for which KfW IPEX-Bank handles the loan accounting as syndicate leader for the account of the other syndicate members.

Personnel

The average number of staff, not including trainees and the Management Board (but including temporary staff) is calculated from the end-of-quarter figures during the 2012 financial year.

	2012	2011	Change
Female employees	266	248	18
Male employees	288	279	9
Staff not covered by collective agreements	453	446	7
Staff covered by collective agreements	101	81	20
Total	**554**	**527**	**27**

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

Total compensation paid to members of the Management Board for the 2012 financial year was EUR 1,867 thousand. Details of the compensation to the members of the Management Board are given in the following table:

Annual compensation[1)]

	Salary	Variable compensation	Other compensation[2)]	Total
	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands
Harald D. Zenke (Speaker of the Management Board)	353	59	20	431
Christiane Laibach	353	60	21	433
Christian K. Murach[3)]	412	60	30	502
Markus Scheer[3)]	412	60	30	501
Total	**1,529**	**239**	**100**	**1,867**

1) Differences may occur in the table due to rounding.
2) Other compensation mainly comprises the use of company cars, insurance premiums and taxes incurring on such compensation. It also includes employer contributions as per German social insurance laws.
3) New contracts were concluded during the financial year.

Total compensation paid to the members of the Board of Supervisory Directors was EUR 128 thousand (net). In addition, attendance fees amounting to EUR 52 thousand (net) were paid. Remuneration is structured as follows: annual compensation amounts to EUR 22 thousand (net) for membership of the Board of Supervisory Directors and EUR 29 thousand for the chairmanship. In addition, attendance fees of EUR 1 thousand are payable for meetings of the Supervisory Board and the Loan, Executive and Audit committees respectively, in each case pro rata where membership is for less than the whole year. In addition, members of the Board of Supervisory Directors can claim reimbursement of travel and other miscellaneous expenses. Compensation to members of the Executive Board of KfW, who on the basis of Section 9 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. Membership of the Board of Supervisory Directors was extended in the financial year to include three employee representatives.

As at 31 December 2012, provisions for pensions for former members of the Management Board and their dependents stood at EUR 5,593 thousand.

As at 31 December 2012 there were no loans outstanding to members of the Management Board.

Board of Supervisory Directors

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

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

Ulrich Goretzki
(Employee representative KfW IPEX-Bank GmbH)
from 13 June 2012

Anne Ruth Herkes
(State Secretary, Federal Ministry of Economics and Technology)
from 16 March 2012

Jochen Homann
(State Secretary, Federal Ministry of Economics and Technology)
until 29 February 2012

Alexander Jacobs
(Employee representative KfW IPEX-Bank GmbH)
from 13 June 2012

Dagmar P. Kollmann
(Businesswoman and Supervisory Board member)
from 15 May 2012

Bernd Loewen
(Member of the Executive Board of KfW)

Dr Nadja Marschhausen
(Employee representative KfW IPEX-Bank GmbH)
from 13 June 2012

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

Karl-Heinz Stupperich
(Chairman of the Board of Supervisory Directors of GWE,
Gesellschaft für wirtschaftliche Energieversorgung)
until 8 May 2012

Management Board

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

Christiane Laibach
Frankfurt am Main

Christian K. Murach
Sulzbach (Taunus)

Markus Scheer
Hofheim am Taunus

Frankfurt am Main, 26 February 2013

Christiane Laibach

Christian K. Murach

Markus Scheer

Harald D. Zenke
(Speaker)

Auditor's Report

Auditor's Report
We have audited the annual financial statements – comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system, and the management report of KfW IPEX-Bank GmbH, Frankfurt am Main, for the business year from 1 January to 31 December 2012. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Company´s management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

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

Our audit has not led to any reservations.

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

Frankfurt am Main, 11 March 2013

KPMG AG
Wirtschaftsprüfungsgesellschaft

Mock
Certified accountant

Müller
Certified accountant

Corporate Governance Report

As a member of the KfW Group, KfW IPEX-Bank GmbH has committed itself to making responsible and transparent actions understandable. Both the Management Board and the Board of Supervisory Directors of KfW IPEX-Bank GmbH recognise the principles of the German Public Corporate Governance Code (PCGC or Code) of the German Federal Government for KfW IPEX-Bank GmbH. A Declaration of Compliance with the recommendations of the PCGC was issued for the first time on 23 March 2011. Since then any potential deviations are disclosed and explained on an annual basis.

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

To implement the PCGC, KfW IPEX-Bank GmbH amended its rules and regulations during the summer of 2010, and included the recommendations and suggestions of the PCGC in its Articles of Association, Rules of Procedure for the Board of Supervisory Directors and Rules of Procedure for the Members of the Management Board.

Declaration of Compliance

The Management Board and the Board of Supervisory Directors of KfW IPEX-Bank GmbH hereby declare: "Since the last Declaration of Compliance submitted 19 March 2012, the recommendations of the Public Corporate Governance Code of the Federal Government, as adopted by the Federal Government on 1 July 2009, were and will continue to be fulfilled with the exception of the following recommendations".

D&O insurance deductible

Effective from 1 January 2013 KfW concluded new D&O insurance contracts in the form of a group insurance policy which also provides insurance cover to the members of the Management Board and the Board of Supervisory Directors of KfW IPEX-Bank GmbH. Although previous contracts – contrary to Clause 3.3.2 of the Code – did not provide for a deductible, the new contracts contain an option to introduce such a deductible. The decision to exercise this option is taken together with the Chairman and Deputy Chairman of the Board of Supervisory Directors of KfW. The deviation from Clause 3.3.2 of the Code will remain effective as long as such a decision is not taken.

Delegation to committees

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

Loans to members of the bodies

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

Number of mandates held by members of the Board of Supervisory Directors

The two members of the Board of Supervisory Directors appointed by the German Federal Government – in deviation from Clause 5.2.1 Sentence 2 of the Code – exercise more than the recommended number of altogether three mandates in monitoring bodies. There are organisational and professional reasons for this that relate to the Federal Government. The dutiful fulfillment of their tasks as members of the company's Board of Supervisory Directors is not jeopardised as both members in question have sufficient time to exercise their mandate from KfW IPEX-Bank GmbH.

Cooperation between the Management Board and the Board of Supervisory Directors

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

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

Management Board

The members of the Management Board manage the activities of KfW IPEX-Bank GmbH with the appropriate due care and diligence of a prudent businessperson pursuant to the laws, Articles of Association, Rules of Procedure for the Members of the Management Board, as well as the decisions of the shareholders' general meeting and of the Board of Supervisory Directors.

In the reporting year the main responsibilities of the members of the Management Board of KfW IPEX-Bank GmbH were as follows:

– Mr Harald D. Zenke: Speaker of the Management Board and Director of Products and Corporate Affairs
– Ms Christiane Laibach: Director of Risk and Finance
– Mr Christian K. Murach: Director of Markets II/Transport sectors and Treasury
– Mr Markus Scheer: Director of Markets I/Industry sectors

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

Board of Supervisory Directors

The formal approval of the actions of the members of the Board of Supervisory Directors by the general shareholders' meeting on 19 March 2012 marked the end of the first term of the incumbent Board of Supervisory Directors of KfW IPEX-Bank GmbH. The second term of the Board of Supervisory Directors began with the appointment of its members by the same general shareholders' meeting. Another change in the composition of the body became necessary due to the implementation of the co-determined Board of Supervisory Directors in accordance with the provisions of the German One-Third Participation Act *(Drittelbeteiligungsgesetz – DrittelbG)*. In a first step the number of members on the Board of Supervisory Directors was increased on 8 May 2012 by the general shareholders' meeting from six to nine, the Articles of Association of KfW IPEX-Bank GmbH were amended and the six representatives from the shareholder were appointed. The changes took effect upon being entered on 15 May 2012. The election of the three employee representatives effective from 13 June 2012 marked the completion of the implementation of a co-determined Board of Supervisory Directors. The now mandatory Board of Supervisory Directors of KfW IPEX-Bank GmbH convened for its first meeting on 5 July 2012. At this meeting not only the Chairman and Deputy Chairman of the Board of Supervisory Directors, but also the members of the individual committees and the respective committee chairs were appointed. The Board of Supervisory Directors advises and monitors the Management Board in the management of the bank.

In accordance with the Articles of Association of KfW IPEX-Bank GmbH in their current version, the Board of Supervisory Directors consists of nine members: two representatives from KfW, two representatives from the Federal Government – one each from the Federal Ministry of Finance and the Federal Ministry of Economics and Technology – and two representatives from industry as well as three employee representatives. In accordance with the Rules of Procedure for the Board of Supervisory Directors in their current version – which were also amended in conjunction with the implementation of the co-determined Board of Supervisory Directors – the Board of Supervisory Directors is to be chaired by a representative of the Executive Board of KfW; as the current Chairman is Dr Norbert Kloppenburg, this requirement is met. Since 13 June 2012 there have been three women on the Board of Supervisory Directors.

Anyone with five or more monitoring mandates from companies under the supervision of the German Federal Financial Supervisory Authority *(Bundesanstalt für Finanzdienstleistungsaufsicht – BaFin)* may not serve as a member of the Board of Supervisory Directors. The members of the Board of Supervisory Directors may not serve in a consulting or supervisory role for any significant competitors of the company. The members of the Board of Supervisory Directors complied with these recommendations during the reporting period. The recommendation that the members of the Board of Supervisory Directors proposed by the Federal Government should in general not exercise more than three mandates in monitoring bodies was, however, not complied with. Conflicts of interest should be disclosed to the Board of Supervisory Directors. No such case occurred during the reporting period.

No member of the Board of Supervisory Directors participated in less than half of the board meetings during the reporting year.

Committees of the Board of Supervisory Directors

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

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

The **Loan Committee** is responsible for all credit-related issues.

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

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 GmbH.

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

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

Protection of deposits
Effective 1 January 2008, BaFin assigned KfW IPEX-Bank GmbH to the statutory compensation scheme of the Federal Association of German Public Sector Banks GmbH. The bank is also a member of the voluntary deposit guarantee fund of the Federal Association of German Public Sector Banks *(Bundesverband Öffentlicher Banken Deutschlands – VÖB)*.

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

Risk management
Risk management and risk controlling are primary responsibilities of the overall bank management in KfW IPEX-Bank GmbH. Using the risk strategy, the Management Board defines the framework for the bank's business activities regarding risk tolerance and the capacity to bear risk. In that way, it is ensured that KfW IPEX-Bank GmbH fulfils its special responsibilities with an appropriate risk profile in a sustained, long-term manner. The bank's total risk situation is analysed comprehensively in monthly risk reports to the Management Board, which then takes corrective action if necessary. 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 GmbH depends to a high degree on the trust of its shareholder, customers, business partners, employees and the general public in terms of its performance and especially also its integrity. This trust is based not least on the implementation of and adherence to the relevant legal and regulatory as well as internal provisions in addition to other applicable laws and regulations. The compliance organisation of KfW IPEX-Bank GmbH includes, in particular, measures for assuring adherence to data protection requirements as well as for preventing insider trading, money laundering, financing of terrorism and other criminal activities. There are corresponding binding rules and procedures that influence the day-to-day implementation of such values and the associated corporate culture; these are continually updated to reflect the current legal and regulatory framework as well as market requirements. Training sessions on compliance and money laundering are held on a regular basis for KfW IPEX-Bank GmbH employees.

Accounting and annual audit
On 19 March 2012, the shareholder of KfW IPEX-Bank GmbH appointed KPMG AG Wirtschaftsprüfungsgesellschaft as auditor of the financial statements for the 2012 financial year. Then, on 5 July 2012, the Board of Supervisory Directors issued the audit mandate to KPMG and in September determined the priorities for the audit together with them. Additionally, the German Financial Supervisory Authority (BaFin) determined further priorities for the 2012 annual audit according to Section 30 of the German Banking Act (KWG). The bank and the auditor agreed that the Chairman of the Audit Committee would be informed without delay of any potential grounds for bias or disqualification arising during the audit that are not immediately rectified. It was furthermore agreed that the auditor would immediately inform the Audit Committee Chairman about any qualifying remarks or potential misstatements in the Declaration of Compliance compared with the PCGC. A declaration of auditor independence was obtained.

Efficiency review of the Board of Supervisory Directors
The Board of Supervisory Directors reviews the efficiency of its activities on a regular basis. At its March 2012 meeting the Board, given the overall positive results of the last two efficiency reviews for financial years 2010 and 2011, resolved to carry out a self-assessment of the quality and efficiency of the work

of its committees only once every two years in the future. Accordingly, the next efficiency review to be conducted will cover the 2013 financial year.

Compensation report

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

Compensation for the Management Board

The compensation system for the Management Board of KfW IPEX-Bank GmbH is intended to remunerate the members of the Management Board according to their roles and areas of responsibility and to take account of the individual achievements and success of the bank. Management Board contracts are drawn up based on the 1992 version of the policy for hiring executive board members at credit institutions of the Federal Government *(Grundsätze für die Anstellung der Vorstandsmitglieder bei den Kreditinstituten des Bundes)*. The contracts take PCGC requirements into account.

Components of compensation

The remuneration of the Management Board consists of a fixed, annual base salary, and a variable, performance-based bonus. An existing contract concluded before 2010 currently still includes a fixed bonus component. This is no longer included in contracts concluded since 2010; the bonus component that was previously fixed has been apportioned to the monthly remuneration. All new contracts from 2010 onward are in accordance with Section 25 a (5) of the German Banking Act (KWG) in conjunction with the German Compensation Regulation for Institutions *(Institutsvergütungsverordnung)*. The establishment of the variable, performance-based bonus component is based upon a target agreement regarding targets between the shareholder and the Management Board that is concluded at the beginning of each year after consultation with the Board of Supervisory Directors. This agreement includes financial, quantitative and qualitative targets for the entire bank, and individual personal targets for each member of the Management Board. Half of the performance-based bonus, calculated according to achievement of targets, is paid out immediately. The remaining 50 % is reserved as a provisional claim and paid into a so-called "bonus account". It is paid out in equal instalments over the following three years, provided that the bank does

Summary of total compensation to members of the Management Board and of the Board of Supervisory Directors

	2012	2011	Change
	EUR in thousands	EUR in thousands	EUR in thousands
Members of the Management Board[1]	1,867	2,554	–687
Members of the Board of Supervisory Directors[2]	180	150	30
Total	**2,047**	**2,704**	**–657**

[1] Prior-year figures include compensation to former Managing Directors totalling EUR 861 thousand
[2] Increase in 2012 due to enlargement of the Board of Supervisory Directors from six to nine members

Annual compensation to members of the Management Board and additions to pension provisions during 2012 and 2011 in EUR thousands[1)2)]

	Salary		Variable compensation		Other compensation		Total		"Bonus account"		Additions to pension provisions	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
	EUR in thousands		EUR in thousands		EUR in thousands		EUR in thousands		EUR in thousands		EUR in thousands	
Harald D. Zenke (Speaker of the Management Board)	353	353	59	–	20	71	431	423	59	–	264	311
Christiane Laibach	353	353	60	45	21	21	433	418	75	45	168	118
Christian K. Murach[3]	412	353	60	45	30	27	502	424	75	45	263	146
Markus Scheer[3]	412	353	60	45	30	29	501	427	75	45	132	125
Total	**1,529**	**1,410**	**239**	**135**	**100**	**148**	**1,867**	**1,693**	**284**	**135**	**827**	**700**

[1] Rounding differences may occur in the table for computational reasons.
[2] Prior-year figures have been reduced by compensation to members who left the Management Board in past years to ensure better comparability on an individual basis.
[3] New contracts were concluded during the financial year.

not materially miss its financial targets. Reductions in provisional claims, up to and including complete elimination, are possible depending upon the bank's financial performance.

The lower table on the previous page below shows the total compensation to the individual members of the Management Board, divided into fixed and variable compensation components and other compensation, as well as additions to pension provisions.

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

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

The members of the Management Board are insured under a group accident insurance policy. In addition, the members of the Management Board receive employer contributions as per the German Code of Social Law *(Sozialgesetzbuch – SGB)*. The members of the Management Board are covered by two insurance policies for the risks associated with their activities in the bank's management bodies. The first provides liability insurance for financial loss (D&O insurance) and the second offers supplemental legal protection from financial loss. Both policies are group insurance policies. The D&O insurance provides protection against financial losses that may arise out of the performance of duties as a member of the Management Board of KfW IPEX-Bank GmbH. Although previous contracts did not contain a deductible, the new contracts effective from 1 January 2013 contain an option to introduce such a deductible. The decision to exercise this option will be taken together with the Chairman and Deputy Chairman of the Board of Supervisory Directors of KfW. As part of their activities, the members of the Management Board of KfW IPEX-Bank GmbH are also included in special criminal law protection insurance for employees that was established as a group insurance policy.

Furthermore, other remuneration includes compensation received for the exercise of corporate mandates and incidental functions held or performed by a member of the Management Board subject to approval by the competent bodies of KfW IPEX-Bank GmbH. For Management Board contracts negotiated from 2010 onwards, the Board members are personally entitled to the entire amount of such remuneration. For existing contracts concluded prior to 2010 the following rule applies: If the total compensation for mandates held exceeds EUR 25,000, then 50% of the amount in excess of this limit must be paid out to KfW IPEX-Bank GmbH. In 2012 and 2011 the members of the Management Board did not receive compensation for exercising corporate mandates.

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

Contractual fringe benefits also include the costs of security measures for residential property occupied by members of the Management Board; these costs are not reported under Other compensation but instead under Non-personnel expenses. Contractual fringe benefits that cannot be granted tax-free are subject to taxation as non-cash benefits for members of the Management Board. There were no outstanding loans to members of the Management Board at year-end.

Retirement pension payments and other benefits in the case of premature retirement
According to Section 5 (1) of the Articles of Association of KfW IPEX-Bank GmbH the appointment of a member of the Management Board is not to extend beyond statutory retirement age. Board members who turn 65 years of age and/or reach statutory retirement age and whose contract for serving on the Management Board has expired are entitled to retirement pension payments and may, at their request, retire early when they turn 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 policy for hiring executive board members at credit institutions of the Federal Government. The PCGC is taken into account when contracts of employment are drawn up for members of the Management Board.

For members of the Management Board who have been appointed as such since 2010 or who have been reappointed, a severance payment cap has been included in their employment contracts in accordance with PCGC recommendations. This cap limits payments to a Board member 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 compensation including fringe benefits for the remainder of the contract, whichever is lower.

In principle the maximum retirement pension entitlement equals 70% of the compensation falling under the pension entitlement. The compensation that falls under the pension entitlement is derived on an actuarial basis from the most recent gross base salary. The retirement pension entitlement – with the exception of the Speaker of the Management Board – is regularly 70% of the maximum pension entitlement for initial appointments and increases by 3% over ten years with every year of service completed until the maximum pension entitlement is reached.

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

No retirement pension payments were made to former members of the Management Board during the 2012 financial year.

Provisions for pension obligations for former members of the Management Board and their dependents totalled EUR 5,593 thousand at the end of the business year 2012 (previous year: EUR 5,258 thousand).

Compensation for the Board of Supervisory Directors

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

Compensation is earned on a pro rata basis when service is 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. Furthermore, members of the Board of Supervisory Directors are entitled

Remuneration of members of the Board of Supervisory Directors for 2012 in EUR

Member	Dates of membership 2012	Annual compensation	Attendance fees[1]	Total
Dr Kloppenburg	1 Jan.–31 Dec.	–	–	–
Mr Loewen	1 Jan.–31 Dec.	–	–	–
State Secretary Dr Beus[2]	1 Jan.–31 Dec.	22,000	12,000	34,000
State Secretary Homann[2]	1 Jan.–29 Feb.	3,667	–	3,667
State Secretary Herkes[2]	16 Mar.–31 Dec.	18,334	5,000	23,334
Dr Rupp	1 Jan.–31 Dec.	22,000	12,000	34,000
Mr Stupperich	1 Jan.–8 May	9,167	6,000	15,167
Ms Kollmann	13 June–31 Dec.	14,667	4,000	18,667
Dr Marschhausen	13 June–31 Dec.	12,834	4,000	16,834
Mr Goretzki	13 June–31 Dec.	12,834	5,000	17,834
Mr Jacobs	13 June–31 Dec.	12,834	4,000	16,834
Total		**128,337**	**52,000**	**180,337**

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

Remuneration of members of the Board of Supervisory Directors for 2011 in EUR

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

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

to reimbursement for travel expenses and other miscellaneous expenses that they incur within reasonable amounts.

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

Details regarding the remuneration of members of the Board of Supervisory Directors during the 2012 and 2011 financial years are listed in the following tables; travel expenses and other miscellaneous expenses were reimbursed based upon receipts and are therefore not included in this table. The indicated amounts are net values and were all paid.

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

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

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

The members of the Board of Supervisory Directors are covered by two insurance policies for the risks associated with their activities in the Board of Supervisory Directors. The first provides liability insurance for financial loss (D&O insurance) and the second offers supplemental legal protection from financial loss. Both policies are group insurance policies of KfW. The D&O insurance provides protection against financial losses that may arise out of the performance of duties as a member of the Board of Supervisory Directors. Although previous contracts did not contain for a deductible, the new contracts effective from 1 January 2013 contain an option to introduce such a deductible. The decision to exercise this option will be taken together with the Chairman and Deputy Chairman of the Board of Supervisory Directors of KfW. As part of their activities, the members of the Board of Supervisory Directors of KfW IPEX-Bank GmbH are also included in special criminal law protection insurance for employees that was established by KfW as a group insurance policy.

Frankfurt, 27 March 2013

The Management Board **The Board of Supervisory Directors**

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