Annual Report 2014

KFW IPEX-Bank

2014

Key figures

Volume of lending of the Export and Project Finance business sector

Volume of lending of the business sector[1] by sector department	2014
	EUR in billions
Maritime Industries	15.1
Power, Renewables and Water	11.8
Aviation and Rail	10.3
Basic Industries	9.6
Transport and Social Infrastructure (PPP)	7.4
Industries and Services	6.0
Financial Institutions, Trade & Commodity Finance	3.9
Leveraged and Acquisition Finance, Mezzanine, Equity	0.2
Total	**64.3**

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

KfW IPEX-Bank GmbH key figures

	2014	2013
	EUR in billions	EUR in billions
Balance sheet key figures		
Total assets	26.3	23.4
Volume of lending	33.5	29.8
Contingent liabilities	2.1	2.2
Irrevocable loan commitments	7.0	6.4
Assets held in trust	0.2	0.2
Volume of business (total assets, contingent liabilities and irrevocable loan commitments)	35.4	32.0
Equity	3.3	3.2
Equity ratio (%)	12.7	13.7
Results	**EUR in millions**	**EUR in millions**
Operating income before risk provisions/valuations	328	285
Risk provisions and valuation	–90	–192
Net income	139	85
Result of the Export and Project Finance business sector (segment report consolidated financial statements of the KfW Group)	541	437
Number of employees (including Management Board)	**640**	**611**

››› Responsible banking

KfW IPEX-Bank is one of the world's leading providers of project and export finance. We structure tailored loans for capital goods and services, economic and social infrastructure projects, and environmental and climate protection projects. As a financing partner, we support German and European companies in international competition – in order to secure growth and employment, to establish vital links in our globalised society, and to preserve sustainable living and livelihoods for future generations.

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››› Our mission is to support German and European companies with their international business operations, and has been for over 60 years.

Dear Readers

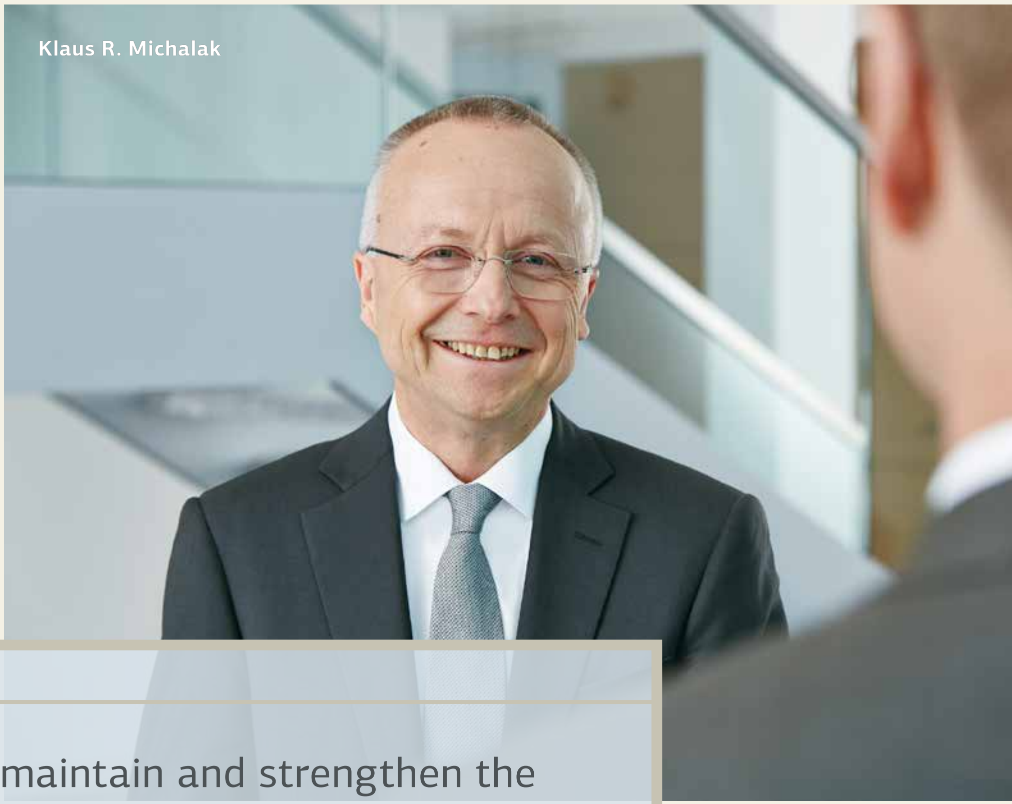
We can look back on an extremely successful year. Despite an economically challenging and highly competitive environment in 2014, we were able to achieve a high volume of new commitments.

KfW IPEX-Bank reaffirmed its role as one of the KfW Group's main sources of revenue. This is due principally to our employees, whom we would like to thank for their great commitment.

KfW's Export and Project Finance business sector, for which we are responsible, provided a total of EUR 16.6 billion in new loans in 2014, exceeding both the previous year's figure and our expectations. At the same time, the business sector contributed EUR 541 million to KfW's consolidated earnings in 2014 – well above the average for the last few years.

The European Central Bank's stress test also confirmed the robustness of our balance sheet and capital resources. Although we are not ultimately subject to supranational supervision, we were one of over 100 European and 25 German banks to complete the comprehensive assessment, and achieved a good result.

››› Within the KfW Group KfW IPEX-Bank is responsible for the Export and Project Finance business sector.



Klaus R. Michalak

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Our aim is to maintain and strengthen the competitiveness of German and European exporters on global sales markets through effective project and export financing.

We would emphasise that all our sector departments worked systematically to take advantage of specific market opportunities and made a positive contribution to earnings. The Maritime Industries sector department posted the largest new lending volume at EUR 2.9 billion, which shows that we remain a reliable and supportive partner for the sector. The commitments comprise financing for offshore industry investments, construction of passenger ferries and, above all, ocean and river cruise ships. The Basic Industries and the Power, Renewables and Water sector departments were also important drivers of growth, contributing EUR 2.7 billion and EUR 2.3 billion respectively to the bank's excellent overall business performance.

This achievement is due not least to our presence in the main economic and financial centres worldwide, which we consider one of KfW IPEX-Bank's key strengths. In order to support our international activities, we set up a new representative office in Mexico in 2014, which began operating at the end of the year. We have thereby expanded our global network with an office in a market that is increasingly important for our business. Apart from the office in Mexico City, we are also represented in Abu Dhabi, Bangkok, Istanbul, Johannesburg, London, Moscow, Mumbai, New York, São Paulo and Singapore.

Another of our strengths is the structuring expertise we provide in syndicated financing, not only to customers but also to other banks. Owing to our extensive experience, we are able to carry out the entire range of banking roles within club deals. Working with partners for the joint financing of large projects is a fundamental aspect of our business and will be further expanded in the future.

Constructive cooperation within the management team of KfW IPEX-Bank is a cornerstone of our success. We are pleased to report that, after having served as Managing Director of KfW IPEX-Bank for one year, Klaus Reinhold Michalak took over as CEO on 1 May 2014 as planned. At the same time, Andreas Ufer, long-time Global Head of the Power, Renewables and Water sector department, was appointed as Managing Director. He will join the Management Board on 1 May 2015 as the member responsible for risk management.

Our colleague Christiane Laibach, who has likewise been with KfW for many years, left KfW IPEX-Bank on 15 February 2015 to join the Management Board of our sister company DEG (*Deutsche Investitions- und Entwicklungsgesellschaft*) in Cologne. We would like to express our sincere thanks to Ms Laibach for her valuable contribution over so many years, and we wish her every happiness and success for what awaits her.

While the bank's performance over the past financial year was very encouraging, our sights are firmly set on the future.

Markus Scheer

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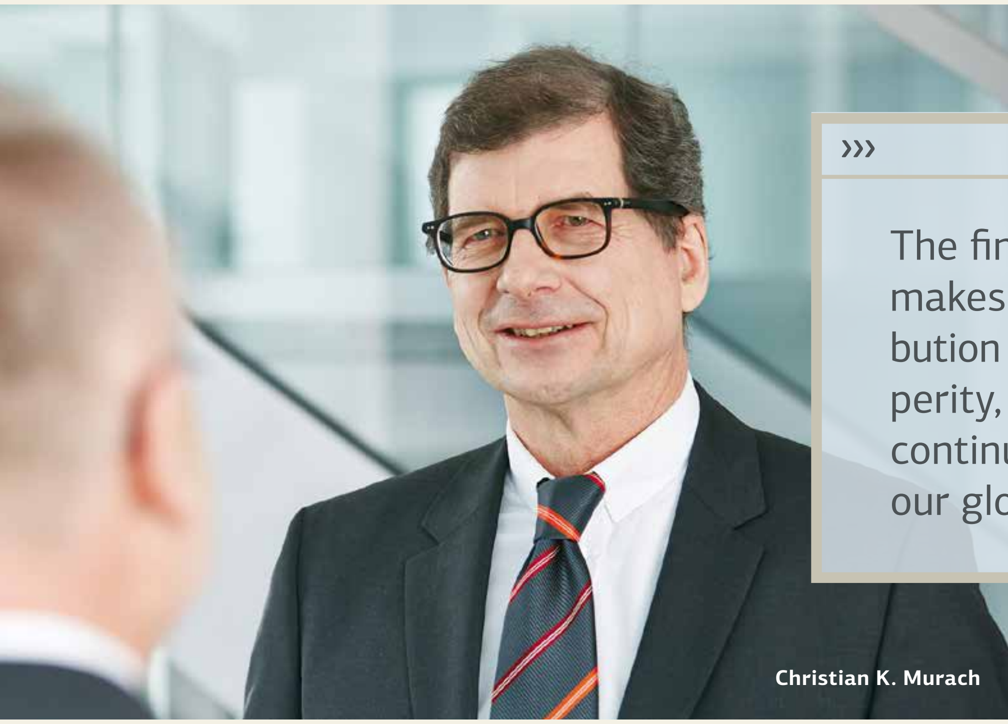
We focus particularly on financing projects and exports that will have a positive impact on the environment and climate.



Christian K. Murach

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The financing we provide makes a significant contribution to growth and prosperity, and therefore to the continued development of our globalised world.

Our objective is to continue developing tailored solutions to support German and European export and investment projects, for example through financings in renminbi, which open up new prospects on growth markets in China and improve the competitive position of German and European export industries. We are also seeing increased demand for short-term trade financing, securities lending and project bonds, which in some circumstances may offer an attractive alternative to structured financing.

We aim to strengthen our position as a leading specialist financier and reliable

Andreas Ufer

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Our structuring expertise makes us a reliable financing partner for our customers as well as a trusted consortium partner for other banks.

partner for the German and European economies in 2015, and have set ourselves ambitious targets, even if the performance of the global economy can only be viewed with cautious optimism. We therefore aim to achieve further moderate organic growth in the Export and Project Finance business sector during 2015, with a new commitments target of EUR 14.2 billion.

Acting responsibly is a guiding principle of our business. In particular, we support projects and exports that impact positively on climate and the environment. That is why we became a member of the international association of equator banks and comply with recognised environmental and social standards in every financing project. As one of the world's largest ship financiers, we pursue an eco-shipping policy and have developed an assessment method that includes energy efficiency as a vital criterion for making financing decisions.

We also observe responsible banking principles in the way we treat our employees. Key aspects of our human resources strategy therefore include both measures to ensure long-term retention of our employees and a family-friendly working model with various part-time working schemes.

We received special recognition for our staff development policies, winning an award for the high level of career development and fairness provided by our trainee programmes. We were one of only 220 companies in Germany to receive this award. We were also certified as a Top Employer in Germany for our forward-looking HR strategy.

We look forward to a successful 2015 financial year and the many new challenges it will bring.

Klaus R. Michalak **Andreas Ufer** **Christiane Laibach** **Christian K. Murach** **Markus Scheer**

Close, constructive cooperation

Report of the Board of Supervisory Directors 2014

The Board of Supervisory Directors and the Management Board of KfW IPEX-Bank cooperated closely over the 2014 reporting year. The Board of Supervisory Directors was informed of all significant developments at KfW IPEX-Bank in a timely and comprehensive manner, and was satisfied by the due and proper conduct of business by the Management Board. The Board of Supervisory Directors regularly monitored and consulted with the Management Board regarding its management of the company. We were involved in decisions of major importance for the company and granted our approval for business transactions, where required, following extensive consultation and review.

Meetings of the Board of Supervisory Directors

A total of four ordinary meetings were held in 2014. At each, the Management Board reported on current business development, presented relevant risk and performance reports and quarterly financial statements, and informed the Board of Supervisory Directors about shareholder resolutions and resolutions of the Board of Supervisory Directors passed by means of circulation.

The first meeting of the financial year took place on 21 March 2014. In its report the Management Board explained to the Board of Supervisory Directors that it had been agreed with the German Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht – BaFin*) that, as of 31 December 2013, KfW's trust business would no longer be presented in KfW IPEX-Bank's balance sheet, leading to a reduction in KfW IPEX-Bank's total assets. After the audit of the 2013 annual financial statements had been presented by the Chairman of the Audit Committee, the Board of Supervisory Directors performed a thorough review of the financial statements in detailed discussion with the Management Board and the auditor. We approved the results of the audit and the financial statements, including the Management Report, on this basis. The Board of Supervisory Directors resolved to award the audit assignment for the 2014 financial year to KPMG AG Wirtschaftsprüfungsgesellschaft, subject to appointment by the shareholder, and determined the scope of the audit. We also approved the 2013 Report of the Board of Supervisory Directors and the 2013 Corporate Governance Report. On the basis of the Executive Committee's report, we recommended that the shareholder appoint Mr Michalak to the Management Board from 1 May 2014 and acknowledged that Mr Michalak was to be appointed as CEO. The Board of Supervisory Directors also recommended that the shareholder conclude the termination agreement between KfW IPEX-Bank and Ms Laibach and pay the performance-based bonus components for the 2013 financial year as proposed. After considering the relevant criteria of Section 25d (7) of the German Banking Act (*Kreditwesengesetz – KWG*), the Board of Supervisory Directors postponed the establishment of a Remuneration Control Committee for the time being, approved an amendment to the Rules of Procedure for the Board of Supervisory Directors, recommended that the shareholder modify the Rules of Procedure for the Management Board and acknowledged the amendment to the Articles of Association. The same applies to the current status of the ECB's comprehensive assessment as presented by the Management Board as well as to the previously approved sale process for Railpool that was set to be concluded shortly afterwards.

At the second meeting on 27 June 2014, we considered current business development in detail, taking note of the Management Board's report as well as the reports of the Audit Committee, Loan Committee and Executive Committee and the annual compliance report.

At the meeting on 26 September 2014, the Board of Supervisory Directors mainly dealt with regulatory and fiscal developments and made recommendations to the shareholder on these issues after extensive discussion. The Executive Committee's report considered in detail the impact of the German Remuneration Regulation for Institutions (*Institutsvergütungsverordnung – IVV*) on KfW IPEX-Bank's remuneration system and on the target agreements with the Management Board. The Board of Supervisory Directors took note of the reports of the Executive Committee, Loan Committee and Management Board on the ECB's ongoing comprehensive assessment.

At the final meeting of the financial year, held on 27 November 2014, the Board of Supervisory Directors started by discussing current business development with the Management Board and received information on the opening of KfW IPEX-Bank's representative office in Mexico. The Management Board presented the final result of the ECB's comprehensive assessment. We also took note of information relating to group business sector planning for the 2015 financial year and the report of the Audit Committee. Within the Audit Committee's report, future procedures for financings in Russia were discussed with us in the context of the "Russia Guidelines" currently being adopted. The Board of Supervisory Directors acknowledged the report of the Loan Committee. Following the report of the Executive Committee, we discussed and unanimously approved the remuneration systems for the Management Board and for the employees of KfW IPEX-Bank. With regard to remuneration for the Management Board, we recommended that the shareholder approve the proposed system for agreeing targets and the concrete target agreement for 2015 as proposed. The result of the efficiency review of the Board of Supervisory Directors for 2014 was discussed by the Executive Committee and presented to the Board of Supervisory Directors, which acknowledged it without any further recommendations. The Management Board went on to explain the requirements of the Remuneration Regulation for Institutions and the related amendments to the Rules of Procedure for the Board of Supervisory Directors. We then passed a resolution establishing a Remuneration Control Committee, which is now obligatory, and making corresponding amendments to the Rules of Procedure for the Board of Supervisory Directors. Dr Kloppenburg, State Secretary Geismann, Dr Rupp and Mr Jacobs were appointed as members of the Remuneration Control Committee. The Remuneration Control Committee held its inaugural meeting on the same day and elected Dr Kloppenburg as Chairman. Finally, the Board of Supervisory Directors passed a resolution on KfW IPEX-Bank's borrowing from the EIB and the promotional institutions of the federal states, and was informed about the implementation of the efficiency review of the Management Board by the Board of Supervisory Directors.

Changes to the Board of Supervisory Directors of KfW IPEX-Bank

State Secretary Dr Beus and State Secretary Herkes left the Board of Supervisory Directors at the end of 2013. State Secretary Geismann was appointed to succeed State Secretary Dr Beus as representative of the Federal Ministry of Finance from 17 February 2014. State Secretary Kapferer was appointed to succeed State Secretary Herkes as representative of the Federal Ministry for Economic Affairs and Energy, also from 17 February 2014. State Secretary Kapferer left the Board of Supervisory Directors on 30 September 2014. State Secretary Machnig was appointed as his successor as of 23 October 2014.

Work in the committees of the Board of Supervisory Directors

The Executive Committee, Loan Committee and Audit Committee fulfilled their designated tasks during the 2014 financial year in line with the rules and regulations of KfW IPEX-Bank. The newly established Remuneration Control Committee held its inaugural meeting on 27 November 2014. The Board of Supervisory Directors was regularly informed of the work of these committees. Conflicts of interest arose with regard to two loan decisions during the financial year. In both cases the members concerned abstained from voting.

In-depth discussion of the annual audit

The Audit Committee discussed and approved the results of the audit of the 2014 annual financial statements in its meetings on 23 January 2015 and 20 March 2015. The Audit Committee recommended that the Board of Supervisory Directors approve the annual financial statements and management report for the 2014 financial year. The discussion centred on partial audit report II of KPMG AG Wirtschaftsprüfungsgesellschaft, covering the audit of the annual financial statements as at 31 December 2014 which were prepared by the Management Board as at 17 February 2015, and the management report for the 2014 financial year. KPMG issued an unqualified audit opinion on 3 March 2015.

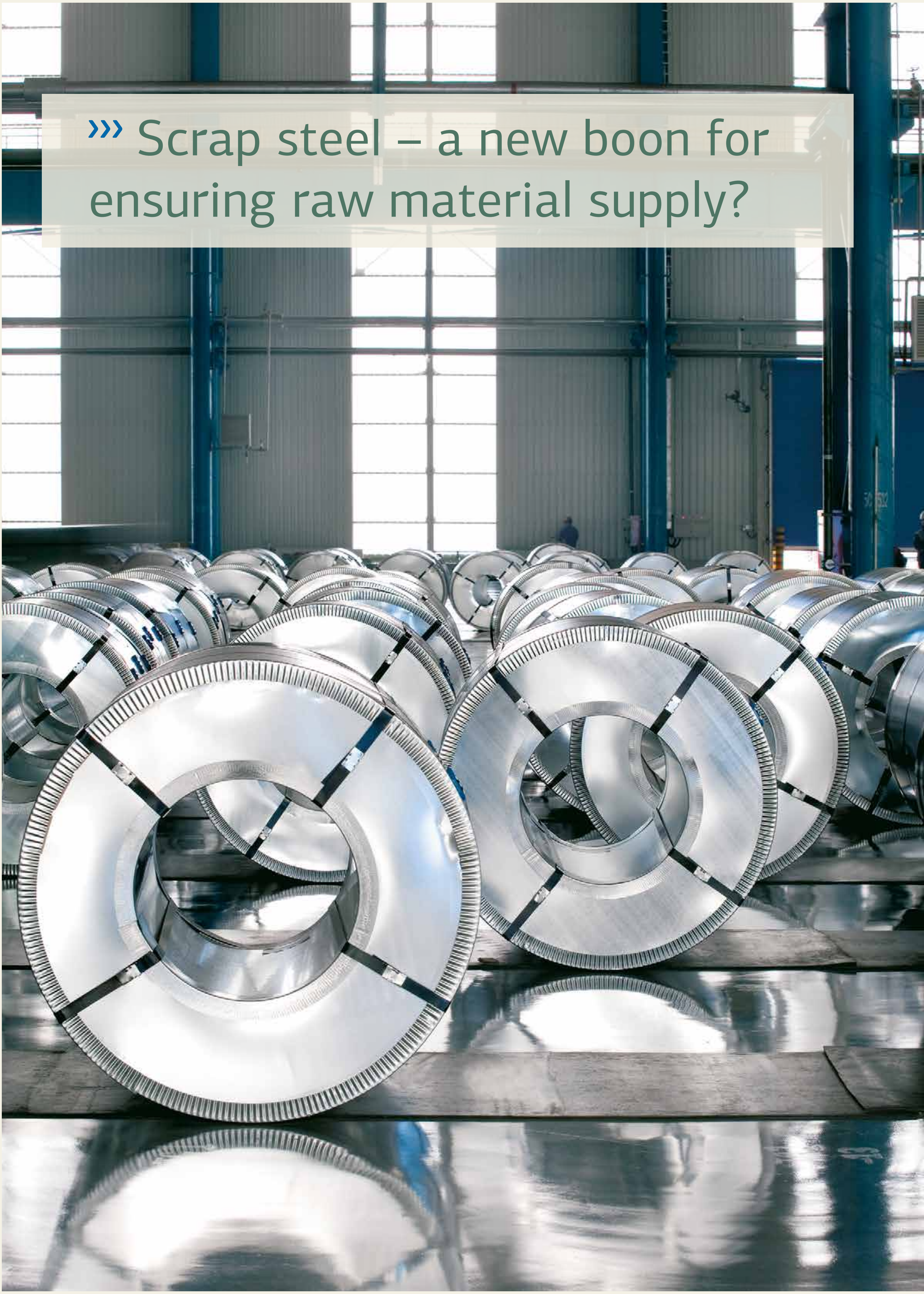
Following a final review by the Board of Supervisory Directors of the annual financial statements, the management report and the proposal regarding the appropriation of profit, we approved the audit result, the annual financial statements and the management report at our first ordinary meeting on 20 March 2015 with no objections, and recommended that the general shareholders' meeting approve the annual financial statements. The Board of Supervisory Directors endorsed the Management Board's recommendation to allocate the net profit for the year of EUR 139.5 million to retained earnings.

The Board of Supervisory Directors would like to thank the Management Board, the Managing Director and all employees for their commitment, hard work and achievements during the 2014 financial year.

Frankfurt am Main, 20 March 2015
On behalf of the Board of Supervisory Directors

Dr Norbert Kloppenburg
Chairman

››› Scrap steel – a new boon for ensuring raw material supply?



››› We finance sustainable steel plants

KfW IPEX-Bank is financing high technology from Germany to enable an ultra-efficient, state-of-the-art facility for processing scrap steel to be constructed in North America. The company Big River Steel LLC based in Mississippi County, Arkansas, is the borrower and client for the newbuild project, for which KfW IPEX-Bank has provided a loan of USD 794 million. The highly efficient production technology is being supplied by the steelworks equipment manufacturer the SMS group, Düsseldorf. Once the plant is completed, US companies from the automotive, pipe and energy industries will be the main purchasers of the products made using scrap steel as raw material.

Leading the way in project and export finance

With its efficient project and export financing, KfW IPEX-Bank enables key industries in Germany and Europe to innovate and stay fit for the future.

As one of the world's leading specialist banks for project and export finance, we support German and European companies so that, in their international business, they can focus on what they do best: producing high-quality goods and using their innovation potential and know-how to maintain and expand their strong competitive position in many industrial sectors. This helps safeguard our economic strength and prosperity, since exports now account for around one in four jobs and half of economic output.

KfW IPEX-Bank is a reliable financing partner for both large corporations and medium-sized companies. We draw on over 60 years of experience to provide tailored loans for capital goods and services, economic and social infrastructure projects, and international environmental and climate protection projects. With our structured project and export financing, our goal is to create optimum conditions for the companies involved and make the risks of international business manageable.

A commercial bank with a statutory mission

KfW IPEX-Bank is a legally independent group company and is responsible within the KfW Group for export and project finance. Its task of providing financing in the interests of the German and European economies is derived from KfW's statutory mission. In performing this task, KfW IPEX-Bank combines the strength of a successful commercial bank acting under competitive market conditions with the values of a promotional institution – values which involve a commitment to sustainability and corporate social responsibility.

KfW IPEX-Bank's extensive expertise in structuring finance combined with, above all, its employees' proven industry and market knowledge are what set the bank apart. We are a sought-after partner for banks – frequently as mandated lead arranger – and, increasingly, for institutional investors as well, for the structuring of complex financing arrangements jointly with other national and international banks.

››› With financing from KfW IPEX-Bank, not only were we able to secure one of the largest orders in our company's history, but we can also go on expanding our market position in the face of global competition through ongoing investment in state-of-the-art facilities.

Eckhard Schulte, Chief Financial Officer of the SMS group

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KfW IPEX-Bank at a glance

SECTORS

Maritime Industries	15.1
Power, Renewables and Water	11.8
Aviation and Rail	10.3
Basic Industries	9.6
Transport and Social Infrastructure (PPP)	7.4
Industries and Services	6.0
Financial Institutions, Trade & Commodity Finance	3.9
Leveraged and Acquisition Finance, Mezzanine, Equity	0.2

640
EMPLOYEES

VOLUME OF LENDING IN 2014
EUR **64.3 BILLION**

REPRESENTED
WORLDWIDE

*established in 2014

Global presence on key export markets

KfW IPEX-Bank is represented in the export industry's chief economic and financial centres worldwide. Our branch in London and representative offices in Abu Dhabi, Bangkok, Istanbul, Johannesburg, Mexico, Moscow, Mumbai, New York, São Paulo and Singapore provide German and European companies with global access to export markets. A representative office was set up in Mexico in 2014 in response to the growing importance of the Mexican market.

Although the global economy remained below its potential growth rate, worldwide demand for capital goods from German and European manufacturers remained stable in 2014. Emerging markets in particular offered good sales opportunities, as was reflected in the distribution of KfW IPEX-Bank's new loan commitments: emerging markets accounted for around 30% of new business, highlighting their importance for exporters.

The USA also drove economic growth, stimulating exports and positively impacting on other industrialised nations. For example, KfW IPEX-Bank provided a loan of nearly USD 800 million to finance around half the overall costs of one of North America's largest and most advanced facilities for producing flat steel from scrap. The company Big River Steel LLC based in Mississippi County, Arkansas, is the borrower and client for the newbuild project, considered one of the most environmentally friendly in the USA. The facility will be constructed by steelworks equipment supplier SMS Siemag, Düsseldorf, with which KfW IPEX-Bank has conducted business for many years.

Responsibility for key industries

The maritime industry is one of Germany's most important economic sectors, employing more than 380,000 people and generating annual revenue of around EUR 50 billion. KfW IPEX-Bank plays a particularly important role in this sector, being the leading financier of the maritime industry in Germany and one of the ten largest worldwide. As part of the export economy, it supports German and other European shipyards and their suppliers with tailored financing for newbuild and renovation projects, and thereby helps protect jobs in the industry. KfW IPEX-Bank's commitment also includes its work as a founding member of the German Maritime Export Initiative (GeMaX), established under the auspices of the German Shipbuilding and Ocean Industries Association (*Verband für Schiffbau und Meerestechnik – VSM*) in Hamburg. The aim of the initiative is to exploit market opportunities for the maritime supply industry and the German shipbuilding industry more efficiently through closer cooperation.

With EUR 2.9 billion in original lending business, the Maritime Industries sector department accounted for the largest share of new commitments in KfW's Export and Project Finance business sector in 2014 (EUR 15.4 billion in total).

The Neptun Werft shipyard in Rostock, for example, received financing of EUR 225 million to build ten river cruise ships. The borrower and client is Viking River Cruises, one of the world's leading shipping companies in this segment and a long-term customer of KfW IPEX-Bank.

KfW IPEX-Bank provided a further EUR 600 million to finance a cruise ship commissioned from the MEYER WERFT shipyard in Papenburg by the shipping company Star Cruises, based in Hong Kong and leader in the high-growth Asian cruise market. KfW IPEX-Bank

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Reliable raw material supply safeguards global competitiveness

German and European companies cannot compete effectively in the international marketplace without a sustainable supply of raw materials. Take the global steel market, for example, where Germany was not only the biggest steel producer in the European Union in 2013, with annual output of nearly 43 million tonnes of crude steel, but also the seventh largest worldwide. At the same time, Germany is almost entirely dependent on imports from abroad for primary metals such as iron ore.

With its medium and long-term financing solutions, KfW IPEX-Bank plays a key role in ensuring that a wide range of German and European sectors, from heavy industry to food production, can obtain reliable supplies of raw materials.

One of the largest financing transactions in 2014 related to raw materials procurement was a loan of USD 100 million to the Iron Ore Company of Canada (IOC). The company is one of Canada's leading producers of iron ore and supplies German and European companies with high-quality iron ore concentrate and iron ore pellets, which are essential primary products for a multitude of steel products. Each year, German and European customers purchase around 7 million tonnes of iron ore concentrate and pellets from IOC for use in high-tech production processes. Successful financing ensures that these deliveries will continue in the future. This helps to safeguard the supply of raw materials to Germany and Europe and fulfils one of KfW IPEX-Bank's core tasks.

Another example of KfW IPEX-Bank's successful efforts in the raw materials segment is its support for the Ghana Cocoa Board. Known across the world as Cocobod, its objective is to purchase the annual cocoa harvest and place it on the global market at a price which is fair for Ghana's cocoa producers. KfW IPEX-Bank has been successfully engaged in the Ghana Cocoa Board's receivable-backed trade finance facility for many years. In 2014, the financing which the bank structured as mandated lead arranger came to around USD 1.7 billion.

structured the overall financing and is providing the entire loan amount jointly with Crédit Agricole Corporate and Investment Bank and DNB Bank ASA.

KfW IPEX-Bank also acts as a leading specialist financier and reliable partner for its customers in the aviation sector. One example is our long-standing collaboration with the European aircraft manufacturer Airbus, which has production facilities in Hamburg and Toulouse, among other cities. Our customers include over 100 passenger, cargo and charter airlines as well as aircraft manufacturers and leasing companies which we support with our many years of experience in complex aircraft financing transactions and in the hedging of sector-specific risks. In 2014, for instance, the bank provided Qatar Airways with a loan to finance the first of a total order of ten Airbus A380-800s.

››› Full power for state-of-the-art technology

Constructed. Financed. Exported.

High R&D investment is part and parcel of business in cutting-edge technology sectors. German and European industry would never be able to achieve the innovative strength and top performance which characterise them worldwide without the willingness to try and explore new things. Well-trained and highly specialised engineers and technicians put in outstanding work to keep improving and heightening the efficiency of substances, equipment and machine performance. To achieve optimal use of materials, lower energy consumption and greater power.

Until the moment of completion ...

Final prototypes are preceded by months and often years of development as well as following up and rejecting different ideas and approaches. The moment when the first tests run well and the targeted performance figures are achieved is the result of lengthy efforts and long periods of uncertainty on the part of those involved. Finally the project is successful. Now production can start, the parts can be fitted, and there is nothing standing in the way of global exports. Relief spreads, along with satisfaction and pride.

Without reliable financing and an experienced financial partner that understands its business and that of its clients well, such a high degree of engineering ingenuity with the resources it requires could not have been achieved within the given time frame.

We are part of all this: It is not just clients of KfW IPEX-Bank who are filled with satisfaction and pride when a technology project is brought to fruition. As financiers of these research and development achievements, such moments are very special for us as well. This is because we get enthusiastic about our partners' projects, provide professional advice and offer them long-term, structured financing – from the initial idea to the development and the global marketing. The German and European economies have relied on our expertise for more than 60 years. And we too are proud of each individual moment of success.

››› Powering ahead while reducing carbon emissions?

››› We finance highly efficient power plant solutions

KfW IPEX-Bank is financing the construction of the 414 megawatt San Gabriel combined cycle power plant in Batangas City, Philippines, with a Hermes-covered loan of USD 265 million. The German company Siemens AG is supplying equipment and parts for the plant, which will attain an efficiency level of over 60 %. The investor and borrower is a subsidiary of First Gen Corporation, one of the largest energy suppliers in the Philippines. The heart of the power plant is its gas turbine, whose high operational flexibility ensures maximum energy efficiency and low carbon emissions – and therefore reduced environmental impact.

Environmental and climate protection: The key challenge of our time

KfW IPEX-Bank finances environmental and climate protection projects because they safeguard natural resources and make good business sense. Entrepreneurial action and responsibility go hand in hand for us.

It is impossible to quantify the importance of a healthy environment and a stable climate. Both are interlinked and have a direct influence on our natural resources and the development prospects for future generations. The main cause of global warming, or the greenhouse effect, is the emission of carbon dioxide (CO_2) due to economic activity, which in turn presents a business opportunity for KfW IPEX-Bank. In 2014 alone, the bank provided financing totalling EUR 2.1 billion for projects with a significant and measurable positive impact on the environment and climate. The focus was on financing renewable energy projects, but also highly efficient conventional energy projects as well as environmentally friendly means of transport and energy-efficient and environmentally responsible production facilities.

Equator banks set standards

KfW IPEX-Bank joined the Equator Principles Financial Institutions (EPFI) seven years ago. This international association now encompasses nearly 80 equator banks which voluntarily adhere to an extensive framework for meeting environmental and social standards when financing projects. The banks have set themselves the goal of continually developing this framework.

As an example, the scope of the framework, initially intended solely for project financing, now also covers project-related corporate loans and bridge loans for follow-on project financing. Climate management standards for projects have also become considerably stricter over time, as have social responsibility requirements.

KfW IPEX-Bank also supports the Extractive Industries Transparency Initiative (EITI) in the field of raw materials extraction. This is a voluntary association of representatives from politics, industry and civil society which is also supported by the German Federal Government. The aim of the initiative is to ensure that revenue from exploration projects in developing and emerging countries rich in raw materials finds its way into public budgets.

››› We take pride in the fact that San Gabriel will be the most efficient combined cycle gas-fired power plant not only in the Philippines, but also in South-East Asia. Our goal is to accomplish more with less by promoting projects that use the latest technologies with the least impact to the environment.

F. Giles B. Puno, President and Chief Operating Officer of First Gen Corporation

Energy efficiency reduces operating costs

As one of the world's largest ship financiers, KfW IPEX-Bank pursues an eco-shipping policy, making it a key priority to ensure that the ships it finances are energy-efficient. An assessment method developed jointly with Germanischer Lloyd enables the bank to take a vessel's energy efficiency into account as an additional criterion when making its financing decisions and to favour energy-efficient ships over others.

KfW IPEX-Bank also helps make shipping more efficient and environmentally friendly by financing retrofitting measures. Retrofitting involves, for example, upgrading a ship's propulsion, bow or propeller to increase energy efficiency. The bank also finances scrubbers, which are systems for desulphurising ships' exhaust gases.

Eco-shipping benefits the environment, but also makes good business sense, since it leads to lower operating costs. Environmental performance is becoming an increasingly important factor in the likelihood of ships being chartered and therefore in the credit default risk.

Environmental and social guidelines encourage sustainability

KfW IPEX-Bank's stated aim of supporting in particular those projects and exports that have a positive impact on the environment and climate has made the bank one of the largest financiers of investments in renewable energies.

These financings are, however, bound by strict requirements. Two years before Germany adopted its national sustainability strategy in 2002, KfW IPEX-Bank was one of the first banks in the country to introduce its own strict environmental and social guidelines for its financings. KfW IPEX-Bank assigns every project it finances to one of three categories (A, B or C) as part of these guidelines.

››› The future is made here

Exported. Financed. Installed.

One feature of globalisation is that economies which were previously just export markets are now developing into production locations. Construction of new production facilities is preceded by precise economic and technical planning – which guarantees that knowledge can be transferred smoothly and the new capacities will be available quickly.

Until the moment of transfer …

Before mass production starts and before machines performing the various steps in the process with precision are switched on, there is one final step required: the official transfer. At the moment of the joint works inspection the investor and the exporter can rightfully look upon this newly created place of economic strength with deep satisfaction and anticipation. This is where economic goods will soon be produced effectively and efficiently in terms of resources thanks to cutting-edge technology as well as goods that have a ready market, that strengthen the manufacturer's competitive position and that offer employment security as well as job prospects for people in the region. A new factory hall is a place of the future, and the transfer a moment of pride.

We are part of all this: Entering a new country entails risks for every entrepreneur. Reliable financing tailored to the requirements and situation of the particular investment minimises these risks. The financial specialists at KfW IPEX-Bank know the countries and industries of their clients well and harness their experience as well as their excellent contacts with international export credit insurers to ensure the success of export projects. When our clients move into other countries with all the associated risks and opportunities, it is exciting for us as well. We also stand by their side as a reliable financial partner for the duration of the project, from the original business plan to commissioning – and far beyond. Each individual moment of success experienced by our partners fills us with pride as well.

KfW IPEX-Bank finances high-technology projects across a wide range of sectors worldwide which help save energy, use it more efficiently or use renewable energy – for the good of the environment.

Category C covers projects with no or negligible negative impact on the environment or society. Projects in categories A and B must be further reviewed by internal KfW experts. KfW IPEX-Bank will then only offer financing – where necessary with additional covenants – if the internationally accepted and demanding environmental and social standards of the World Bank are adhered to.

High-tech in the service of environmental and climate protection

Energy-efficient logistics processes play an essential role as we progress towards greater environmental and climate protection. They are responsible for over 5.5% of global greenhouse gas emissions. One quarter of the energy is consumed by conveying, storage and order picking processes. For example, significant energy savings can be achieved compared with traditional storage technology with the Austrian retail group SPAR's new order picking machinery. KfW IPEX-Bank is providing financing of EUR 40 million to expand its central warehouse in Wels. Witron, a mid-sized German company based in Parkstein in the Oberpfalz region, supplies fully automated order picking technology.

The use of advanced technology to improve energy efficiency has enormous export potential, since the innovative lead enjoyed by German companies in the development of environmentally friendly energy systems not only sets global standards, but also strengthens their competitive position. One example is the San Gabriel combined cycle power plant which, upon completion, will attain efficiency of over 60%, making it the most efficient power plant in the Philippines and the whole of South-East Asia. The power plant is being financed with a Hermes-covered loan of USD 265 million and will use key technologies from Germany to reduce the environmental impact. Siemens AG is supplying the equipment and parts for construction of the 414 megawatt power plant in Batangas City in the Philippines, including the high-efficiency gas turbine.

Wind power financing promotes carbon-neutral power generation

Since the turn of the millennium, installed wind energy output in Europe has increased by around 17% per annum. The current total output of 86 gigawatts in average wind years meets 5.3% of Europe's gross electricity demand with carbon-neutral electricity. The develop-

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Forward-looking product portfolio and new solutions

As a successful project and export financier, we continually adapt our offering to the future requirements of the market and develop new solutions to support German and European export and investment projects. Our customers benefit from our constantly expanding structuring expertise and the ongoing evolution of our product portfolio.

Most of our project and export financing involves medium to long-term loans. We provide these loans as investment and export financing in the form of redeemable loans, financial guarantees and lease financing, as project and asset financing or acquisition financing. Economic and/or political risks can be hedged through public or private credit insurance, and interest-rate and foreign exchange risks through derivatives.

Instruments for short-term trade financing, securities lending and project bonds are also part of our portfolio, and in certain circumstances may provide an attractive alternative to structured financing.

Loans in the currencies of destination countries are also becoming increasingly common, for example in the case of exports to China, where KfW IPEX-Bank provided a loan of RMB 100 million in 2014, its first loan in the Chinese renminbi. The loan, worth the equivalent of EUR 12 million, finances the construction and delivery of German and European installations to expand the Chinese production facilities of BSH Bosch and Siemens Hausgeräte GmbH. In providing loans in local currencies, our goal is to minimise foreign exchange risks, reduce financing costs, improve competitiveness and create opportunities on the Asian markets.

ment and expansion of wind power would not be possible without spearheading finance for such projects.

In 2014, for example, KfW IPEX-Bank provided the NOP Agrowind wind energy project with a loan totalling EUR 350 million under a syndicated financing arrangement in partnership with the European Investment Bank and Rabobank. NOP Agrowind is an initiative of agricultural entrepreneurs in the Dutch province of Flevoland, which is investing in the construction of 26 E-126 wind turbines from the German manufacturer Enercon. These will be among a total of 86 wind turbines at the Noordoostpolder wind farm, making it the largest wind farm in the Netherlands, capable of providing around 180,000 average Dutch households with green electricity in an average wind year.

KfW IPEX-Bank provided financing in Finland for the first time amounting to some EUR 100 million to support the construction of a wind farm. Located in the country's northern Lapland region, the Kuolavaara-Keulakkopään Tuulipuisto ("Kuke") wind farm with a total output of 51 MW will comprise 17 wind turbine generators of the type N117-3000 supplied by the German manufacturer Nordex, based in Rostock. Given its climatic conditions and energy-intensive industry, Finland has the highest per-capita energy consumption in Europe. In line with EU requirements the country has set itself the goal of meeting 38% of energy consumption with renewable energies by 2020.

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2014 awards for outstanding financing

The "Deal of the Year" title awarded annually by leading specialist publications is one of most coveted trophies and an impressive testament to an international bank's success. A number of financing transactions in which KfW IPEX-Bank participated, and which enabled the bank to demonstrate its experience in structuring complex project and export finance, were awarded the title in 2014.

The jury from Project Finance International magazine awarded the accolade to a total of seven KfW IPEX-Bank transactions, including a financing structure for the Mersey Bridge, a 1,000-metre-long cable-stayed bridge in the UK, and the financing solution for an ethane cracker and derivatives complex for Sasol Limited in the USA.

The construction of the six-lane road bridge over the River Mersey in North West England is part of a government programme to modernise the UK's infrastructure. The total budget for the megaproject is around GBP 100 billion, of which GBP 600 million is allocated to the Mersey Gateway.

A consortium of 18 international banks including KfW IPEX-Bank provided total financing of USD 4 billion for the ethane cracker and derivatives complex in Lake Charles in the US state of Louisiana.

The infrastructure and project financing magazine IJGlobal made awards to seven of KfW IPEX-Bank's transactions, including the complex financing structure for an integrated waste disposal project in northern England. Together with the European Investment Bank, the UK Green Investment Bank and three other international commercial banks, KfW IPEX-Bank provided financing of GBP 236 million for the facility's construction out of a total investment cost of GBP 320 million.

Six KfW IPEX-Bank financings received awards from the jury of Trade Finance Magazine, including a loan for construction and modernisation works for the Santiago Metro in Chile. Around USD 800 million is being provided in three tranches towards total costs of USD 1.3 billion, with KfW IPEX-Bank acting as lead arranger alongside BNP Paribas, Crédit Agricole, ING Bank, Mizuho, Santander, SMBC and Société Générale.

PFI AWARDS 2014

IJGlobal Europe & Africa Awards 2014

TRADE FINANCE DEALS OF THE YEAR 2014

GTR BEST DEALS 2014

THE PERFECT 10 DEALS OF THE YEAR 2014

››› Can green logistics do heavy lifting?

››› We finance zero-emission container transport vehicles

The Long Beach Container Terminal (LBCT) in California has 72 battery-powered automated guided vehicles (AGVs) in service – financed by KfW IPEX-Bank and completely emission-free. The vehicles are supplied by German company Terex Port Solutions (TPS), and are part of a large project: Long Beach, one of the biggest ports in the world, is known as the Green Port and has already received numerous awards for its commitment to environmental concerns. It is currently combining and converting two container terminals. The objective is to construct a new, ultra-modern container terminal with a final capacity of 3.3 million twenty-foot equivalent units (TEU) per year which meets the highest technological and environmental standards. Contracts for a USD 81 million loan to finance the AGVs and peripheral equipment were signed this summer in Hong Kong, where the port operator Orient Overseas Container Line (OOCL) has its head office. With this financing for leading-edge, German-made, environmentally friendly technology, KfW IPEX-Bank is supporting a German port equipment producer in the key US growth market for the first time.

Financing for a connected world

We support the economic success and prosperity of our globalised and highly mobile society with reliable financing for economic and social infrastructure – including as a financing partner for public-private partnerships.

Efficient infrastructures are the lifeblood of our globalised and highly mobile world. KfW IPEX-Bank therefore considers infrastructure finance one of its main priorities. Whether for maintaining and extending economic infrastructure such as road, rail and supply networks, or social infrastructure such as administrative buildings, schools and hospitals: to be fit for the future, projects must be executed and operated in a sustainable, environmentally friendly manner.

Seaports play an important role in this respect as transit points for global flows of goods, acting as the interface between sea and land transport. Fast, robust and highly automated loading systems are a prerequisite for an efficient logistics chain, but as such they consume large amounts of energy. This is an area where innovative technologies can improve energy efficiency and help mitigate climate change.

Taking the lead with emission-free logistics technology

Long Beach in Los Angeles County, California, one of the largest ports in the world, is setting new standards. The Green Port, one of the first in the world to have won awards in recognition of its commitment to environmental concerns, uses electromobility for horizontal transport of containers: 72 German-made, driverless, battery-electric automated guided vehicles with a capacity of 70 tonnes each ensure that containers are transported rapidly and efficiently between the quay and the storage areas. The port operator commissioned the Düsseldorf company Terex Port Solutions (TPS) to deliver a turnkey package of the AGVs, a battery exchange station plus hardware and software for the fleet management system.

Companies such as TPS, a pioneer in industrial-scale electromobility, make a significant contribution to environmental protection as electromobility reduces odour emissions as well as air and noise

››› KfW IPEX-Bank is providing financing for equipment that we manufacture here in Düsseldorf. It is a key component of this environment-friendly, zero-emission project in California. It also marks the first time that we are exporting AGVs outside of Europe and is a premiere for us in the USA – this is our contribution to sustainable port logistics.

Dr Mathias Dobner, Vice President Engineering, Systems & Automation of Terex Port Solutions pollution. This financing for leading-edge, German-made, environment-friendly technology marks the first time that KfW IPEX-Bank is supporting a German port equipment producer in the key US growth market.

Financing from KfW IPEX-Bank is in demand not only for infrastructure for the global goods trade, but also in areas such as public transport, which offers a more environmentally friendly alternative to private transport. For instance, KfW IPEX-Bank financed 29 new and highly energy-efficient multiple-unit trains worth EUR 145 million for the Central Saxony Transport Association (*Verkehrsverbund Mittelsachsen*). The trains will be operational from 2016, offering passengers greater comfort on three rail lines in the south-west of Saxony and reducing energy costs. Financing is being provided by a banking consortium made up of KfW IPEX-Bank, Norddeutsche Landesbank and Deutsche Kreditbank.

PPPs as a procurement model for maintenance projects

Investment in public infrastructure has been declining for some time in Germany. At the same time, the large amounts of liquidity held by private investors place them in a good position to invest in maintaining and expanding infrastructure.

To date, public-private partnerships (PPPs) have been used in Germany primarily to build new infrastructure, although investments in existing infrastructure are much less costly and the flexibility of this procurement method makes it especially suitable for selected maintenance projects on existing infrastructure. Financing for the Schleswig-Holstein University Medical Centre (*Universitätsklinik Schleswig-Holstein – UKSH*) is currently one of Germany's largest PPP construction projects. Investment in this large-scale undertaking, involving the expansion, redevelopment and renovation of hospital facilities in Kiel and Lübeck, comes to a total of EUR 520 million.

As part of a complex financing structure, KfW IPEX-Bank is providing debt capital for the project amounting to approximately EUR 82 million as a partner within a banking consortium, and an additional tranche of around EUR 100 million on a bilateral basis directly to the UKSH. KfW IPEX-Bank can draw on its experience of numerous international PPP projects in the USA, Canada, the UK, France, the Netherlands and Australia, among other countries.

The largest PPP project thus far, and the first one in Germany financed with project bonds, is the extension of the A7 motorway between Hamburg and Bordesholm, Schleswig-Holstein. This involves the project company placing a bond on the capital market with investors able to buy successive tranches over the construction period.

Alongside KfW IPEX-Bank, institutional investors from the USA, Canada and Europe and the European Investment Bank also purchased project bonds. The project has construction costs of some EUR 600 million and was awarded by the German Federal Government to a consortium consisting of the construction company Hochtief, the investor Dutch Infrastructure Fund (DIF) and the building firm Kemna.

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A valued expert serving exporters

KfW IPEX-Bank has been operating for the benefit of exporters for over 60 years. Customers and consortium partners are not the only beneficiaries of our experience spanning over six decades. The bank's specialist know-how is also sought after in the political sphere. As experts in export financing and export credit guarantees, we advise ministries, governments, parliaments, international organisations, associations and companies on promoting exports, and are actively involved in developing and improving conditions for German and European exporters.

At the request of the German Federal Government, KfW IPEX-Bank draws on its expertise as an experienced specialist financier to advise the Interministerial Committee for Export Credit Guarantees, a role it performs in an honorary capacity. The Committee's function is to take decisions on cover policy and export credit guarantees. KfW IPEX-Bank is also represented on the so-called Hermes Panel of Experts, which deals with technical issues relating to Hermes instruments. On the international stage KfW IPEX-Bank advises the Federal Government in international forums on export finance and insurance, such as working groups of the European Council and the OECD.

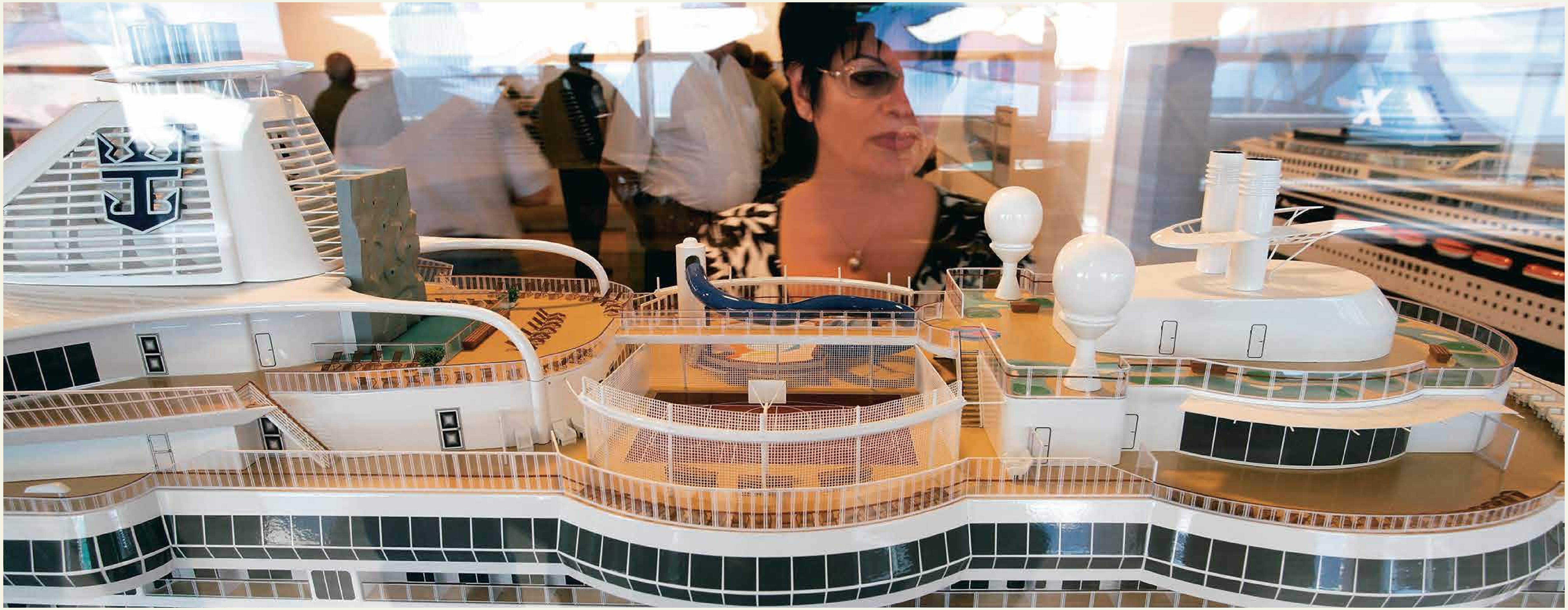
KfW IPEX-Bank implements the European Recovery Programme on behalf of the Federal Government and KfW, providing loans to finance German exports to developing countries at a fixed rate of interest based on the commercial interest reference rate (CIRR). KfW IPEX-Bank also manages the CIRR ship financing scheme on behalf of the Federal Government, which provides buyers of ships with fixed-rate loans based on the CIRR for the entire tenor of the loan.

››› Can good ideas secure a competitive advantage?

››› We are on board to finance two cruise ships

We are taking a successful, long-standing collaboration to the next level with two new cruise ships. The ships are being financed by KfW IPEX-Bank, built by the MEYER WERFT shipyard in Papenburg, Lower Saxony, and will be operated by Norwegian Cruise Line, based in Miami. They are scheduled to set sail within four years. Coming in at 164,600 gross tonnes, each ship will be able to accommodate nearly 4,200 passengers. The two new vessels of the Breakaway Plus Class are the twelfth and thirteenth ships of their fleet, and are being built for the US shipping company by MEYER WERFT. Under the innovative “freestyle cruising” concept, passengers are offered maximum freedom and flexibility.

However, passengers are not the only beneficiaries of this large-scale contract. The construction work also helps support the German export industry and the northern German shipbuilding industry. The purchase price for the two ships is just under EUR 1.6 billion.



Reliable partner in global competition

The export industry is a key pillar of our economy and makes a significant contribution to securing employment, growth and prosperity. That is why KfW IPEX-Bank's mission is to maintain and strengthen the competitiveness of German and European export companies in the global marketplace.

The bank's offering caters to medium-sized and large companies in key industries of the German and European economies. These include the environmental and energy sector, basic industries, automotive and plant engineering, retail, pharmaceuticals, speciality chemicals, health and telecommunications. Within transport and infrastructure, the bank's sector departments Maritime Industries, Aviation and Rail, and Transport and Social Infrastructure (PPP) focus on the corresponding sectors.

Due to its high level of structuring expertise and its employees' proven industry and market knowledge, the bank can participate in the largest and most prestigious financing projects worldwide, mostly within international banking consortia. KfW IPEX-Bank assumes various banking roles within these partnerships with other banks and, increasingly, institutional investors.

Demand for export and project financing is stable

A number of major countries and economic areas grew far less strongly in 2014 than had been anticipated at the beginning of the year, notably the euro area and Japan. Other industrialised nations surprised by performing well, for example the USA. As a group, developing and emerging countries continued to grow more strongly than industrialised nations, albeit at a lower level than in previous years. Despite this, worldwide demand for capital goods from German and European manufacturers remained stable in 2014.

Competition in the high-volume project and export finance market remained strong during the reporting year, as internationally active European, North American and Asian banks are looking for market opportunities and have large amounts of liquidity at their disposal. Institutional investors, under heavy investment pressure owing to the current low-interest environment, are also increasingly entering the lending market.

New business development very positive

KfW's Export and Project Finance business sector, for which the bank is responsible, generated new commitments totalling EUR 15.4 billion in its original lending business in 2014 (2013: EUR 13.7 billion). In addition, there were new commitments of around EUR 1.3 billion for bank refinancing within the CIRR ship financing scheme, a mandated business managed on behalf of the Federal Government. The volume of new commitments was far greater than expected, due to a number of factors. Several high-volume individual transactions were concluded in Basic Industries and, especially, in Maritime Industries, but these should be considered as exceptions. In 2014 the bank also extended a greater volume of loans awaiting syndication where the syndication process will continue beyond year-end. In all sector departments, KfW IPEX-Bank systematically took advantage of the market opportunities that arose during the reporting year.

All of KfW IPEX-Bank's sector departments made a positive contribution to the 2014 result. The Maritime Industries sector department posted the largest new lending volume at EUR 2.9 billion. These commitments mainly comprised financing for offshore industry investments, construction of passenger ferries and above all ocean and river cruise ships, all of which has a positive impact on capacity utilisation in German and other European shipyards. The Basic Industries sector department was also an important driver of growth. It achieved new commitments of EUR 2.7 billion, likewise a result of large individual investments, including the construction of an entire steel plant in the USA with significant supplies from Germany, and also due to high international demand for petrochemical exports. At EUR 2.3 billion, the Power, Renewables and Water sector department also contributed to the bank's excellent overall business development.

A firm fixture on global markets

Goods and services from Germany and other European countries stand for quality and reliability the world over. KfW IPEX-Bank helps exporters take advantage of this competitive advantage with financing individually tailored to each transaction.

In 2014, Germany accounted for 21 % (EUR 3.2 billion) of new loan commitments, the rest of Europe 38 % (EUR 5.9 billion) and countries outside Europe 41 % (EUR 6.3 billion). Emerging markets accounted for around 30 % of new business, highlighting their importance for the export industry.

In order to fulfil its statutory mission, KfW IPEX-Bank also actively targets countries in which accessing financing is difficult. To support its international operations, KfW IPEX-Bank has representative offices in Abu Dhabi, Bangkok, Istanbul, Johannesburg, Mexico, Moscow, Mumbai, New York, São Paulo and

Singapore, and a branch in London. A representative office was set up in Mexico in 2014 owing to the rising importance of the Mexican market.

Acting responsibly is our guiding principle

Taking responsibility is a matter of course for KfW IPEX-Bank. As a specialist bank it aims to focus its lending business on supporting projects and exports that will have a positive impact on the environment and climate. To this end, as part of its lending process KfW IPEX-Bank classifies every project it finances according to its environmental and social impact.

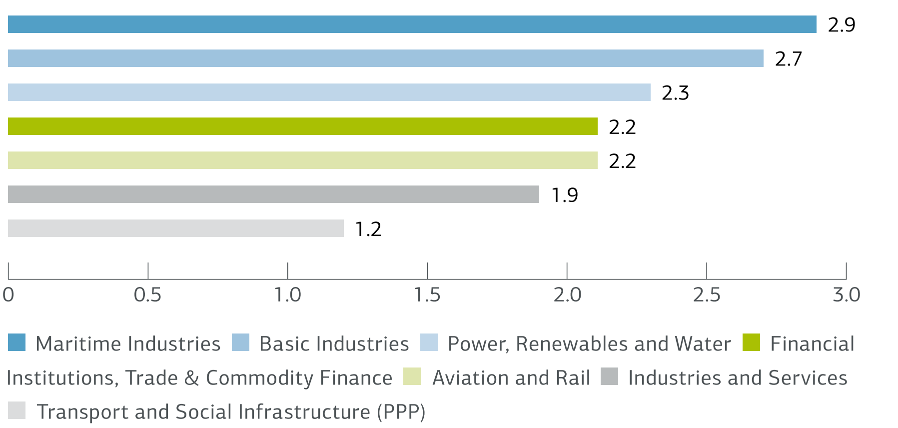
In view of their worldwide environmental, social and economic impact, the bank became a member of the Equator Principles Financial Institutions (EPFI) seven years ago. This international association now encompasses nearly 80 equator banks which voluntarily adhere to an extensive framework for meeting environmental and social standards when financing projects.

The bank's own rules for sustainable financing go even further. In addition to complying with the Equator Principles and the OECD's Common Approaches for ECAs (which involve evaluating the environmental and social impact of projects in the buyer's own country), KfW IPEX-Bank has voluntarily extended the scope of its sustainability assessments to cover all of its other financing products.

As one of the world's largest ship financiers, KfW IPEX-Bank pursues an eco-shipping policy, making it a key priority to ensure that the ships it finances are energy-efficient. The bank's internally developed assessment method enables a vessel's energy efficiency to be taken into account as an additional criterion when taking financing decisions, thereby promoting energy-efficient ships. This not only benefits the environment, but also makes good business sense, since environmental performance is becoming an increasingly important factor in the likelihood of ships being chartered and therefore in the credit default risk.

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

New commitments by sector department (figures in EUR billions)[1]
Total: EUR 15.4 billion[2]



[1] Not including bank refinancing under the CIRR ship financing scheme
[2] Differences in the total due to rounding

Above average contribution to the group result

The Export and Project Finance business sector, for which KfW IPEX-Bank is responsible, contributed EUR 541 million to KfW's consolidated earnings in 2014, well above average compared with previous years. The business sector thereby reaffirmed its status as one of the KfW Group's main sources of revenue. Despite challenging economic and market conditions, the business sector again played an active role in securing KfW's long-term promotional capacity.

The operating result of the Export and Project Finance business sector, for which KfW IPEX-Bank is responsible, was EUR 619 million, similar to the previous year's figure. It mainly comprised net interest income and net commission income, less administrative expense. Lower risk provisions were required during the reporting year due to positive risk developments, so that the result from ordinary business activities rose to EUR 602 million.

KfW IPEX-Bank GmbH is a legally independent and separate reporting entity which performs all export and project finance market transactions. The bank reported an operating income before taxes of EUR 238 million, also a very good result. The volume of lending in the Export and Project Finance business sector reached EUR 64.3 billion as at 31 December 2014 (previous year: EUR 59.9 billion).

Maintaining and expanding the bank's market position

Global economic prospects in 2015 must be viewed with cautious optimism. Nevertheless, gradual upward trends are expected to continue in industrialised nations, and demand for exports from Germany and Europe, along with corresponding financing, should remain stable.

KfW IPEX-Bank aims to strengthen its position as a leading specialist financier and reliable partner for key industries vital to the German and European economies in 2015. The Export and Project Finance business sector plans further moderate organic growth in the 2015 financial year. The 2015 target for new commitments is EUR 14.2 billion (2014 target: EUR 13.2 billion).

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Mission statement: the basis for sustainable business success

As a legally independent group company whose operations are derived from KfW's statutory mission, KfW IPEX-Bank combines the strength of a successful commercial bank with the values of a promotional institution – values which involve a commitment to sustainability and corporate social responsibility.

The mission statement describes how management and employees fulfil this mission and how responsible banking is experienced by customers, staff, shareholders and society in everyday working life. The mission statement was revised at the initiative of the Executive Board of KfW and approved in 2014, and sets out the guiding principles for our day-to-day business and how we work together within the bank.

The five principles express the consensus view on what our corporate culture should be like, and were developed over an intensive half-year process of dialogue in which a large proportion of the workforce took part. They reflect values developed in employee workshops and identified in online questionnaires, as well as the results of parallel projects addressing the issues of gender balance, management principles and health management. The principles are:

We take responsibility.
We treat each other fairly.
We always strive for the best solutions.
We expect and promote personal initiative.
We make decisions transparent and comprehensible.

Further information on the mission statement can be found on the www.kfw-ipex-bank.de website under "About KfW IPEX-Bank", "Mission Statement".

A progressive and responsible human resources policy

As a leading project and export financier, KfW IPEX-Bank depends on well-trained and motivated employees who impress customers with their expertise, service-minded approach and professionalism. Our employees again made a significant contribution to the success of KfW IPEX-Bank in 2014 with their tremendous commitment and dedication.

In 2014, KfW IPEX-Bank employed an average total of 640 people (previous year: 611). The proportion of employees working part-time remained at the previous year's level of 17.1 %. Female staff currently make up 46.9 % of our workforce. The proportion of women in management increased and is now 24.4 % (previous year: 22.2 %). The proportion of disabled employees is 0.8 % at present, and this figure is to rise further. The average age of the bank's employees was 40.3 years. The staff turnover rate adjusted for retirement remained very low in 2014 at 3.3 % (previous year: 4.0 %).

A remuneration system linked to performance and market developments

The remuneration system is a key tool of HR management and should promote KfW IPEX-Bank's attractiveness as an employer. KfW IPEX-Bank's remuneration strategy and remuneration systems are geared towards achieving the goals set out in KfW IPEX-Bank's Business and Risk Strategy.

The basic principle of KfW IPEX-Bank's remuneration system is to link employees' income to their performance and contribution to the bank's success, based on a system that is transparent, need-oriented and in line with market trends.

New works agreements concerning remuneration and targets were also signed in late 2014 to implement the amendments adopted in December 2013 to the German Remuneration Regulation for Institutions (*Institutsvergütungsverordnung – IVV*), which KfW IPEX-Bank is subject to as a credit institution pursuant to Section 1 (1) of the German Banking Act (*Kreditwesengesetz – KWG*). Implementation began in 2014 and was completed by 1 January 2015.

Group mission statement

The Executive Board of KfW initiated a group-wide revision of the mission statement as a binding principle for our day-to-day business. The mission statement adopted in 2014 describes how all employees can fulfil the group's mission and assume responsibility towards customers, staff, shareholders, society and the bank.

Management responsibility

The "Management Responsibility" project initiated in 2014 aims to revise the current competency model, so as to align it even more closely with the current and future requirements for managers.

Personnel key figures

Employees	640
Part-time employees	17.1 %
Average age	40.3 years
Proportion of female staff	46.9 %
Proportion of male staff	53.1 %
Proportion of women in management	24.4 %
Proportion of disabled employees	0.8 %

The project is focused on managers' personal credibility and the assuredness of their manner and actions.

The various staff development tools, particularly those relating to manager selection and development, supervisor assessment and succession management, will be gradually adapted to the new management competency model, worked on jointly with KfW, from 2015 onwards.

Gender-sensitive culture

A group-wide programme entitled "Gender Balance" was launched in 2012 to promote a culture of gender-sensitive management and collaboration in the KfW Group. The programme uses two interactive formats to engage as broad a cross-section of the workforce as possible in constructive dialogue. Internal discussion is stimulated through Gender Balance Forums, followed by Gender Balance Dialogues.

The declared goal of the Gender Balance programme is to develop a culture of management and collaboration based on respect and mutual trust, where men and women at all stages of their lives can realise their potential in a way that is as much in harmony with their individual lifestyles and working patterns as possible. Strategic priorities have been identified for the continuation and further implementation of the Gender Balance programme under the headings of attitude and values, work-life balance, development, leadership and, finally, (working) capacity, which will play a significant role in shaping tomorrow's workplace.

In 2014, KfW's Mentoring scheme continued to help women in particular take on management positions for the first time or to facilitate the perpetuation of their role. The programme involves experienced management providing support and guidance to future managers over an extended period.

A group-wide "Shadowing" programme was introduced for the first time in 2014. This provides an opportunity for KfW IPEX-Bank employees showing an interest in, and having the potential to fill, management roles to shadow management at divisional and departmental level, and thereby gain a practical insight into daily managerial work.

Health management

A Corporate Health Management programme was set up for the Group in late 2013, jointly with KfW. The programme is intended to promote health in our work processes, organisation and culture, above and beyond the health-related activities already on offer, in order to help staff perform to their full potential.

One of the programme's first priorities from 2014 onwards was to involve managers at all levels. The connections between management and health were considered during an initial training session. Building on these results, the subject of health will be embedded in day-to-day management practice, with specific, needs-based, practical offerings for managers and their units. Staff were also directly involved in this process during 2014 through Health Days held at all locations.

Promoting young talent

Ensuring that young employees gain the necessary qualifications is a central focus of our human resources strategy. Eleven university graduates were enrolled in our graduate trainee programme at the end of 2014. This programme offers targeted 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.

Fair Company and Top Employer

KfW IPEX-Bank remains a member of the nationwide Fair Company initiative run by the career portal karriere.de. This initiative aims to ensure that university graduates and interns are treated fairly and that they are not used as substitutes for full-time positions.

KfW IPEX-Bank was one of only 220 companies in Germany to be commended for its particularly career-enhancing and fair trainee programmes in 2014. The award is based on a charter of fair and career-enhancing trainee programmes. The companies who received the accolade are those whose programmes provide university graduates with a good basis for successful careers.

The Top Employers Institute also performed an independent evaluation of KfW IPEX-Bank and awarded it Top Arbeitgeber Deutschland 2014 (top employer in Germany in 2014) certification. The award was made on the basis of KfW IPEX-Bank's forward-looking HR strategy, constant improvement in its working environment and ongoing investment in staff development.

Works council and representative of disabled employees

Elections to the works council were held during the reporting year. The works council of KfW IPEX-Bank consists of 11 members and was once again elected with a very high turnout of 75.2 %. Elections were also held for the representative of our disabled employees in 2014.

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 like to take this opportunity to thank its members, both old and new, together with the representative of our disabled employees, for their positive cooperation.

In memoriam

In 2014 we were extremely saddened to learn of the deaths of our retired colleagues Andreas Klocke and Dr Werner Fassing. We will remember our colleagues with grateful respect.

››› Management Report

Economic Report

General economic conditions

Global economic growth was generally disappointing in 2014. A number of major countries and economic areas grew far less strongly than had been anticipated at the beginning of the year. Among the industrialised nations, this was especially true of the euro area and Japan. Other industrialised nations surprised by performing well (in particular the USA). As a group, developing and emerging countries continued to grow more strongly than industrialised nations. However, growth in many emerging countries fell to a very low level, and some are facing genuine crises due to a multitude of structural weaknesses which require fundamental reforms and will take a long time to resolve. The oil price fell markedly during the course of 2014, leading to a redistribution from oil exporters to oil importers. While many oil-producing countries were able to cope with their losses, others ran into grave difficulties. These circumstances became even more acute when combined with regional and/or geopolitical risks, as in the case of Russia in particular. An array of geopolitical risks impacted upon the global economy during 2014.

Economic recovery among member states of the European Economic and Monetary Union (EMU) was moderate in 2014, and growth remained very fragile. Apart from continuing high levels of unemployment and the difficulty in obtaining credit still faced by businesses and consumers in many member states, this was due to increased geopolitical risks. Economic output in EMU countries in 2014 increased by 0.9 % year-on-year – a somewhat lower growth figure than that anticipated by KfW a year previously. Above all, uncertainty arising from escalating geopolitical conflicts had a negative impact.

The economy in Germany grew significantly more strongly in 2014 than in the previous two years, as a result of growth in consumption and housing construction on the back of continued positive developments in the labour market, with the number of people employed recently reaching an all-time high of 42.7 million. Unlike in 2013, net exports had a positive effect on economic growth. Inflation-adjusted GDP grew by 1.6 % on average during 2014 overall.

The main factors impacting the financial markets in 2014 were escalating geopolitical conflicts and the highly expansionary monetary policies still being pursued by the biggest central banks around the world. Although the US Federal Reserve gradually reduced bond-buying during the course of 2014, and stopped altogether by the end of October, both the Bank of Japan and the European Central Bank introduced additional monetary stimulus measures. The global financial markets therefore continued to benefit from ample liquidity. In view of the geopolitical crises, safe investments were in especially high demand.

The rapid and substantial fall in crude oil prices caused significant turmoil in the financial markets in the second half of 2014. In this environment, the currencies and financial markets of some oil-producing countries in particular came under heavy pressure.

Key interest rates were further lowered in the euro area over the course of 2014 in response to the fragile economic environment and declining rates of inflation. The European Central Bank set a negative deposit rate for the first time ever. Purchase programmes for covered bonds and asset-backed securities were also launched in the autumn and further measures were proposed.

In the second half of the year, divergent approaches to monetary policy between the euro area and the USA exerted significant downward pressure on the EUR/USD exchange rate, which fell to its lowest point of the year at the end of December with a rate of 1.21. The year's average rate was just under 1.33, virtually unchanged compared with 2013.

Business development of KfW IPEX-Bank GmbH

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

Although the global economy is still below its potential growth rate, worldwide demand for capital goods from German and European manufacturers remained stable in 2014. Competition on the high-volume project and export finance market remained intense during the reporting year. The cautious approach adopted by European and North American lending banks in response to the financial and sovereign debt crisis and the Basel III regulations almost disappeared. These banks once again became more active in the market. Japanese banks and those from emerging countries also built up a strong market presence. The low-interest environment led also institutional investors seeking alternative investment opportunities with stable cash flows to expand their activities.

In new business, KfW IPEX-Bank concentrated on borrowers with good ratings, providing financings for projects backed by solid collateral and offering support to long-standing customers. In KfW's Export and Project Finance business sector – for which KfW IPEX-Bank is responsible – the bank generated commitments totalling EUR 15.4 billion in its original lending business in 2014 (2013: EUR 13.7 billion). In addition there were new commitments of around EUR 1.3 billion for bank refinancing under the CIRR ship financing scheme, agency business managed on behalf of the German Federal Government. The volume of new commitments was far greater than expected. Against a backdrop of moderate global willingness to invest and a high level of competition and liquidity in the market, this result was very good due to a number of factors. Several voluminous individual transactions were concluded in the Basic Industries and, especially, the Maritime Industries sector departments, yet these should be considered as exceptions. In 2014 the bank also extended a greater volume of loans awaiting syndication where the syndication process will continue beyond year-end. Throughout all sector departments, KfW IPEX-Bank systematically took advantage of the market opportunities that arose during the reporting year. To a large extent the bank was therefore able to fulfil its mission of supporting the German and European export economies by providing tailored financing for their international operations. Of these total commitments, EUR 10.0 billion constituted KfW IPEX-Bank's market business, and EUR 5.4 billion was trust business performed on behalf of and for the account of KfW.

A key element of the bank's business strategy is its presence in key international target markets for the German and European export industries. This is in line with the bank's mission to help the export economy compete in the global marketplace and to provide financing for investment in infrastructure and transport, for environmental and climate protection projects and for projects that secure the supply of raw materials. KfW IPEX-Bank has a branch in London and a total of ten representative offices across the world.

KfW IPEX-Bank funds itself almost completely through borrowings from KfW, at terms and conditions in line with those on the capital markets. As in 2012 and 2013, the funding conditions improved further for KfW IPEX-Bank in 2014, as they did for other commercial banks. In the first six months of the year, funding costs for European financial institutions predominantly moved sideways, with fluctuations. The Russia-Ukraine conflict and weaker economic data from China, Japan and the USA negatively impacted the mood on capital markets, but funding costs for banks proved very resilient. In the second half of the year, the capital market environment improved markedly for banks, leading to a reduction in credit risk premiums. Among other factors, this development was enhanced by the European Central Bank (ECB) twice reducing its key interest rates – in June and again in September, by economic recovery in the USA and by greater economic confidence within the euro area. The prospect of the ECB making use of additional monetary policy instruments in 2015 also stabilised the markets. Yields on 10-year euro-area government bonds therefore fell to record lows. KfW IPEX-Bank's funding situation also improved in the course of this development. The bank's average funding costs for the year were slightly lower than in the previous year.

KfW IPEX-Bank has an Aa3 rating from Moody's and an AA rating from Standard & Poor's. Both ratings were reconfirmed in 2014.

Overview of results of operations, net assets and financial position

Operating income before risk provisions and valuations was EUR 328 million, up EUR 43 million (+15 %) on the previous year. Net interest income and net commission income are the most significant components of KfW IPEX-Bank's earnings and together totalled EUR 484 million. While net interest income (EUR 299 million) remained at a similar level to the previous year, net commission income (EUR 185 million) increased by EUR 36 million (+24 %). This reflects a welcome growth of new commitments in the E&P business sector, which were well up on the previous year. Administrative expense amounted to EUR 190 million, comprising personnel expense of EUR 87 million and other administrative expense of EUR 103 million, including depreciation on property, plant and equipment. The overall increase of EUR 21 million (+12 %) on the previous year is mainly due to increases in personnel expense. This development was driven primarily by higher appropriations to pension provisions as a result of lower interest rates and hence a lower discount rate. Other operating income and expenses (EUR 34 million) was boosted by foreign exchange gains owing to the significant appreciation of the US dollar against the euro, especially in the second half of 2014. The bank maintains a fund for general banking risks in accordance with Section 340g of the German Commercial Code (*Handelsgesetzbuch – HGB*), in view of the increasingly strict tier 1 capital requirements under Basel III and in order to stabilise solvency ratios with regard to fluctuations in USD exchange rates. The ongoing adjustment of the fund to movements in the exchange rate led to EUR 38 million being appropriated to the fund in the reporting year, which is listed as a separate item on the income statement. The effect of this was largely to offset the bank's foreign exchange gains.

The risk provision and valuation result totalled EUR –90 million, almost entirely due to the risk provision result in the lending business (EUR –91 million). Valuations from securities and investments (EUR +1 million) consisted of the balance of write-ups and write-downs on investments and fixed-asset securities, and capital gains from the disposal of one investment. The total risk provision and valuation result was significantly lower than the previous year, due to the need for only a moderate increase in risk provisions for the lending business. Over the past financial year KfW IPEX-Bank continued to cover all recognisable risks through its conservative approach to risk assessment.

Operating income before taxes was EUR 238 million. After taking into account appropriations to the fund for general banking risks in accordance with Section 340g of the German Commercial Code (EUR –38 million), profit from operating activities before taxes was EUR 200 million. After deducting taxes on income, the remaining net income for the year was EUR 139 million, a significant increase on the previous year (EUR 85 million).

KfW IPEX-Bank's total assets as at 31 December 2014 came to EUR 26.3 billion, up EUR 2.9 billion (+12 %) on the previous year. This was mainly due to an increase in loans and advances to banks and customers of EUR 3.2 billion (+15 %). The principal cause of this, alongside a rise in loan receivables and call money deposits with KfW (liquidity management), was a significant increase in the value of the US dollar against the euro over the reporting year. On the liabilities and equity side, movement in total assets was mainly reflected in an increase of EUR 2.6 billion (+14 %) in liabilities to banks to EUR 21.0 billion. Following its successful application for a licence to conduct Pfandbrief (German covered bond) business, KfW IPEX-Bank began issuing registered Public Pfandbriefe. The bonds are acquired exclusively by KfW as investor and as such are recognised as liabilities to banks. As a long-term means of funding, issuing covered bonds provides the bank with a more cost-effective alternative to funding through uncovered promissory note loans.

Volume of business, which takes contingent liabilities from guarantees and irrevocable loan commitments into account in addition to total assets, totalled EUR 35.4 billion at the balance sheet date, a significant increase of EUR 3.5 billion (+11 %). As well as the movement in total assets set out above, this increase was also due to a rise in irrevocable loan commitments of EUR 0.7 billion (+11 %) to EUR 7.0 billion.

The bank's regulatory capital totalled EUR 3.8 billion as at 31 December 2014, based on the new regulations in force since 1 January 2014 (the Capital Requirements Regulation [CRR] and the Capital Requirements Directive [CRD IV]). The associated capital ratios as at the balance sheet date are: tier 1 common capital ratio = 11.5 %, tier 1 capital ratio = 15.2 %, and total capital ratio = 17.7 %.

KfW IPEX-Bank has undergone the European Central Bank's comprehensive assessment within the framework of the EU's single supervisory mechanism for all banks in the euro area. The results of the Asset Quality Review (AQR) were communicated in writing to KfW IPEX-Bank on 11 February 2015. No adjustments to the balance sheet were required. In the ECB stress test scenario KfW IPEX-Bank achieved a tier 1 common capital ratio of 9.42 %. The ECB decided not to include KfW IPEX-Bank among those banks falling under its supervision.

Earnings position

	1 Jan. – 31 Dec. 2014	1 Jan. – 31 Dec. 2013	Change	
	EUR in millions	EUR in millions	EUR in millions	%
Net interest income[1]	299	306	–7	–2
Net commission income	185	149	36	24
General administrative expense	–190	–169	21	12
Other operating income and expenses	34	–1	35	>100
Operating income before risk provisions/valuations	**328**	**285**	**43**	**15**
Valuations from securities and investments	1	–3	–4	<–100
Risk provision result in lending business	–91	–189	–98	–52
Risk provisions and valuations, total	**–90**	**–192**	**–102**	**–53**
Operating income before taxes	**238**	**93**	**145**	**>100**
Appropriation to or withdrawal from the fund for general banking risks as per Section 340g of the German Commercial Code (HGB)	–38	13	–51	<–100
Profit/loss from operating activities before taxes	**200**	**106**	**94**	**89**
Taxes on income	–61	–21	40	>100
Net income for the year	**139**	**85**	**54**	**64**

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

KfW IPEX-Bank's operating income before risk provisions and valuations in the financial year was EUR 328 million. This was a very good result, clearly exceeding the previous year's figure by EUR 43 million (+15 %).

Net interest income and net commission income

Net interest income and net commission income totalled EUR 484 million, comprising net interest income of EUR 299 million and net commission income of EUR 185 million. These are key sources of earnings for the bank and rose by a total of EUR 29 million (+6 %) compared with the previous year.

Interest income amounted to EUR 625 million while interest expense added up to EUR 326 million. EUR 600 million of the interest income was generated by the bank's lending business and money market transactions and EUR 24 million from the securities portfolio. Current income from shares, other non-fixed-income securities and equity investments contributed EUR 1 million to interest income. The interest expense of EUR 326 million related mainly to the bank's ongoing funding through promissory note loans, registered Public Pfandbriefe and money market transactions (EUR 192 million), as well as interest rate swaps and cross-currency swaps (EUR 61 million). The hybrid capital instruments of the silent partner contribution and subordinated liabilities also accounted for interest expenditure of EUR 26 million and EUR 8 million, respectively.

Net commission income was EUR 185 million, EUR 91 million (49 %) of which came from processing fees generated in KfW IPEX-Bank's market business. This item also includes income generated in the E&P trust business (EUR 75 million), which KfW IPEX-Bank administers on behalf of KfW as a trustee. This increase in net commission income reflects a welcome growth in new commitments within the E&P business sector over the past financial year. Net commission income also includes guarantee commissions of EUR 20 million.

Administrative expense

Administrative expense amounted to EUR 190 million, comprising personnel expense of EUR 87 million and non-personnel expense (other administrative expense plus depreciation and impairment on intangible assets and property, plant and equipment) of EUR 103 million. Personnel expense includes expenditure of EUR 68 million for wages and salaries. The other main component is expenditure of EUR 12 million for employee pensions, consisting almost entirely of appropriations to pensions provisions which were significantly higher than in the previous year due to low interest rates and the correspondingly lower discount rate pursuant to the German Act to Modernise Accounting Law (*Gesetz zur Modernisierung des Bilanzrechts – BilMoG*). Other administrative expense mainly consists of expenses for services (EUR 59 million) and office operating costs (EUR 21 million), and a further EUR 9 million for occupancy costs. The bank procures the majority of its services for a total of EUR 77 million (75 %) from KfW. Additional expenses of EUR 2 million were incurred in 2014 in connection with the bank's participation in the European Central Bank's comprehensive assessment.

Administrative expense

	2014 EUR in millions	2013 EUR in millions	Change EUR in millions
Wages and salaries	68	62	6
Social insurance contributions	7	7	0
Expense for pension provisions and other employee benefits	12	3	9
Personnel expense	**87**	**72**	**15**
Non-personnel expense	**103**	**97**	**6**
Administrative expense	**190**	**169**	**21**

Other operating income and expenses
Other operating income and expenses (EUR 34 million) mainly comprised foreign exchange gains, reflecting a significant appreciation of the US dollar against the euro over the past financial year. The ongoing adjustment of the fund for general banking risks, created pursuant to Section 340g of the German Commercial Code, to fluctuations in the USD exchange rate (EUR 38 million) is shown as a separate item in the income statement, "Appropriations to the fund for general banking risks", and largely offsets KfW IPEX-Bank's foreign exchange gains. This item also included income from services to group companies (EUR 3 million) and the banking levy (EUR 4 million).

Risk provisions and valuations
The risk provision and valuation result of EUR –90 million was almost entirely accounted for by the risk provision result in the lending business (EUR –91 million). Valuations from securities and investments came to EUR 1 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 are based on the loss expected within one year for all loans for which no specific loan loss provisions have been recorded.

The risk provision result in the lending business reflected a moderate need for additional provisions for acute risks, well below the previous year's level. General risk provisions rose slightly as the lending business expanded. The risk provision result in the lending business developed favourably overall and was well below the previous year's figure. The bank covered all recognisable risks with commensurate risk provisions in line with its conservative risk assessment policy.

Valuations from securities and investments amounted to EUR 1 million, consisting of the balance of write-ups and write-downs on investments and securities held as fixed assets, and capital gains from the disposal of an investment.

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

Net income
After deducting taxes on income (EUR –61 million), net income for the year was EUR 139 million, well above the previous year's result.

Net assets

Volume of lending for own account
The volume of lending (loans and advances to banks and customers, plus financial guarantees and irrevocable loan commitments) totalled EUR 33.5 billion as at 31 December 2014, marking a significant year-on-year increase of EUR 3.7 billion (+13%).

Loans for own account by sector department

Sector department	31 Dec. 2014	31 Dec. 2013	Change
	EUR in millions	EUR in millions	EUR in millions
Aviation and Rail	5,237	4,548	689
Maritime Industries	4,506	4,613	–107
Power, Renewables and Water	4,029	3,444	585
Industries and Services	2,833	3,146	–313
Basic Industries	2,523	2,017	506
Transport and Social Infrastructure (PPP)	2,213	1,995	218
Financial Institutions, Trade & Commodity Finance	1,820	1,206	614
Leveraged and Acquisition Finance, Mezzanine, Equity	124	101	23
	23,285	**21,070**	**2,215**
Other receivables	1,098	154	944
Loans and advances to banks and customers	**24,383**	**21,224**	**3,159**
Financial guarantees[1)]	**2,079**	**2,170**	**–91**
Irrevocable loan commitments[1)]	**7,046**	**6,368**	**678**
Total	**33,508**	**29,762**	**3,746**

[1)] Please refer to the notes for a breakdown by sector department.

The rise in the total volume of lending is mainly due to a EUR 3.2 billion (+15 %) increase in loans and advances to banks and customers to EUR 24.4 billion. The primary reason for this was the higher carrying amount of loans and advances in the past financial year. Both substantial appreciation of the US dollar against the euro and growth in new business contributed to this positive development. The bank issued new commitments of altogether EUR 15.4 billion in the E&P business sector during the reporting year (not including bank refinancing under the CIRR ship financing scheme). EUR 10.0 billion (65 %) of this amount relates to the market business presented on KfW IPEX-Bank's balance sheet. New commitments in the E&P business sector increased by a total of EUR 1.7 billion (+12 %) compared with the previous year. The bank also considerably increased its call money deposits with KfW as part of its liquidity management (Other receivables).

The bank generated the largest share of its total volume of lending in the sector departments of Aviation and Rail, and Maritime Industries.

Development of other major balance sheet assets
The carrying amount of bonds and other fixed-income securities at the reporting date was EUR 1.6 billion. KfW bonds (EUR 1.3 billion) accounted for the largest share by far. The entire content of the bank's securities portfolio is classified as fixed assets. The decrease in the carrying amount by EUR 0.3 billion (–15 %) is mainly due to the sale and disposal of held-to-maturity securities, which was not fully offset by new investments.

Assets held in trust of EUR 161 million, which are recognised in the balance sheet, relate exclusively to lending business that is administered on a trust basis by KfW IPEX-Bank for third parties and is owned by the bank in civil-law terms.

Equity investments were EUR 103 million at the balance sheet date, marking a decrease in their carrying amount of EUR 15 million (–13 %) year-on-year. This decrease is mainly due to the disposal of one investment and the impairment of a remaining investment.

Prepaid expenses and deferred charges (EUR 35 million) include interest expenses from swaps accrued on a pro rata basis in the amount of EUR 33 million.

Financial position

Funding

KfW IPEX-Bank funds itself almost exclusively through borrowings from KfW, providing it with funds at market-based terms on the basis of a refinancing agreement. The bank uses standard money-market and capital-market products as funding instruments, such as promissory notes, call money and time deposits. Having obtained its Pfandbrief licence, the bank also raised funds by issuing registered Public Pfandbriefe for the first time during the past financial year. As a long-term means of raising funds, refinancing using covered bonds provides the bank with a more cost-effective alternative to refinancing through uncovered promissory note loans. They are issued as registered Public Pfandbriefe and exclusively acquired by KfW as investor. Funding is obtained in the currencies and for the tenors required by the bank's customers.

Liabilities to banks of EUR 21.0 billion consisted almost entirely of funds borrowed from KfW. The majority (EUR 17.8 billion) comprised medium to long-term funding in the form of promissory note loans and registered Public Pfandbriefe denominated in euros and US dollars. The significant increase in liabilities to banks by EUR 2.6 billion (+14 %) on the previous year is the result of movements in the USD exchange rate and an increased funding requirement owing to expansion of the bank's lending business.

Liabilities to customers of EUR 0.4 billion consisted predominantly of deposits from customers.

Structure and development of refinancing

	31 Dec. 2014	31 Dec. 2013	Change
	EUR in millions	EUR in millions	EUR in millions
Liabilities to banks			
Call money and term borrowings (KfW)	2,999	2,580	419
Promissory note loans and other long-term borrowings (KfW)	17,767	15,596	2,171
Interest payable (KfW)	79	84	–5
KfW total	**20,845**	**18,260**	**2,585**
Other	184	164	20
	21,029	**18,424**	**2,605**
Liabilities to customers			
Other creditors[1)]	360	420	–60
Total	**21,389**	**18,844**	**2,545**

1) Includes liabilities to customers from term borrowings (EUR 250 million)

KfW IPEX-Bank secures its liquidity through a corresponding refinancing agreement signed with KfW. The bank also has access to an equity investment portfolio, short-term money market investments and an open credit facility with KfW of EUR 1.6 billion to ensure it is sufficiently solvent at all times.

Further details on the liquidity situation are contained in the Risk Report.

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

	31 Dec. 2014	31 Dec. 2013	Change
	EUR in millions	EUR in millions	EUR in millions
Equity	3,331	3,192	139
Subscribed capital	*2,100*	*2,100*	*0*
Capital reserve	*950*	*950*	*0*
Retained earnings	*142*	*142*	*0*
Balance sheet profit	*139*	*0*	*139*
Subordinated liabilities	824	725	99
Fund for general banking risks as per Section 340g HGB	320	281	38
Total	**4,475**	**4,198**	**277**

Subscribed capital consists 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 amount and quality of banks' equity (Basel III). Basel III is implemented in the European Union in the form of the Capital Requirements Directive (CRD IV) and the Capital Requirements Regulation (CRR), which both came into effect on 1 January 2014. KfW IPEX-Bank complies with all corresponding regulations. Over the next few years substantially stricter requirements will be phased in with regard to tier 1 capital as required for banking supervisory purposes.

KfW IPEX-Bank and KfW as the bank's (indirect) shareholder agreed on an appropriate capitalisation plan in December 2011 to bring the bank's capital structure gradually into line with new regulatory requirements. This plan was approved by the German Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht – BaFin*). Given the multitude of conditions and the variety of factors that change over time and impact the capital ratios, KfW IPEX-Bank's capitalisation continues to be reviewed on an ongoing basis and, where necessary, adjusted and optimised. A two-phase capital planning process takes place annually for this purpose in order to, among others, meet the requirements of CRD IV and CRR, to ensure the bank has adequate capital, and to comply with provisions on capital buffers. Under this capitalisation concept, the bank had already strengthened its tier 1 common capital over the previous years.

KfW IPEX-Bank makes appropriations to a fund for general banking risks in accordance with Section 340g of the German Commercial Code, which serves to strengthen the bank's tier 1 capital and, in particular, stabilise solvency ratios with regard to fluctuations in USD exchange rates. The fund amounted to EUR 320 million as at 31 December 2014. The increase of EUR 38 million compared with the previous year was solely the result of adapting the fund to fluctuations in the USD exchange rate.

Further details are contained in the Risk Report.

Development of other material items of liabilities and equity

Provisions totalled EUR 217 million, representing a moderate year-on-year rise of EUR 16 million (+8%). This was mainly due to tax provisions rising significantly by EUR 31 million (> 100%) to EUR 54 million owing to the bank's high level of profit for the year. Provisions for pensions and similar commitments also rose by EUR 17 million (+21%) to EUR 99 million, partly attributable to the decrease in the discount rates set forth in the German Act to Modernise Accounting Law (*Bilanzrechtsmodernisierungsgesetz – BilMoG*). By contrast, other provisions decreased by EUR 31 million (–33%) to EUR 64 million. This was primarily the result of a decline in provisions for the lending business.

Deferred income came to EUR 38 million overall, mainly comprising income from swaps accrued on a pro rata basis along with receivables purchases.

Other liabilities (EUR 32 million) mainly consist of the balancing item for the foreign currency translation of derivative hedges (EUR 24 million) and liabilities to the financial authorities (EUR 4 million).

Off-balance sheet financial instruments

The volume of derivative transactions as at 31 December 2014 totalled EUR 17.1 billion. The bank performs these transactions to hedge interest and exchange rate risks. The increase of EUR 3.6 billion (+26%) is primarily due to the increase in contracts with interest rate risks (interest rate swaps), which at EUR 15.8 billion represent the majority (93%) of off-balance sheet financial instruments. In order to manage market price risks, the bank also uses cross-currency swaps (EUR 1.1 billion) and, to a limited extent, foreign exchange (FX) forward transactions and foreign exchange (FX) swaps.

Summary

In financial year 2014, KfW IPEX-Bank's operating income before risk provisions and valuations was again very good. After taking into account the total risk provision and valuation result as well as the appropriations to the fund for general banking risks, the bank generated a pre-tax profit of EUR 200 million. This was primarily due to the need for only a moderate increase in risk provisions and significantly exceeded the previous year's figure.

Subsequent events

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

Sustainability Report

Acting responsibly is our guiding principle

Taking responsibility is a matter of course for KfW IPEX-Bank. In conducting its lending business, its aim and focus as a specialist bank is to finance projects and exports that will have a positive impact on the environment and climate. Its commitment is international in scope and has global environmental, social and economic relevance. This is why the bank joined the Equator Principles Financial Institutions (EPFI) seven years ago. This international association now encompasses nearly 80 so-called equator banks which voluntarily adhere to an extensive framework for meeting environmental and social standards when financing projects. The framework is based on the World Bank's environmental guidelines and involves compliance with the International Finance Corporation (IFC) Performance Standards and the Environmental, Health, and Safety (EHS) Guidelines of the World Bank Group. The EPFIs take part in a regular dialogue to continually develop these high standards. For example, the scope of the framework, initially intended just for project finance, now also covers project-related corporate loans and bridge loans for follow-on project financings. Climate management standards for projects have also become considerably stricter over time, as have social responsibility requirements.

The bank's own guideline for sustainable financing goes even further. As well as complying with the Equator Principles and the OECD's Common Approaches for ECAs (which involve evaluating the environmental and social impact of projects in the buyer's own country), KfW IPEX-Bank has voluntarily extended the scope of its sustainability assessments to cover all of its other financing products.

Another element of acting responsibly for KfW IPEX-Bank is making its own office operations carbon-neutral. The West Arcade, the location of the bank's headquarters in Frankfurt, is one of the most energy-efficient office buildings in the world. This 13-storey building's primary energy consumption of 98 kWh/m^2 per year falls well below comparable benchmark standards. Together with its parent company KfW, KfW IPEX-Bank also uses 100% green electricity generated from hydropower. Since 2006 KfW IPEX-Bank has rendered its remaining emissions, such as those resulting from necessary business travel, carbon-neutral by purchasing and retiring emission certificates.

The ABCs of environmental and social assessments

When implementing its own Sustainability Guideline, KfW IPEX-Bank assigns every project it finances to one of three categories: A, B or C. Category A covers projects that could have substantial, diverse and, in some cases, irreversible environmental and social impacts, such as raw materials projects or the building of dams which have an actual, physical impact on nature. Category B involves projects whose effects on the environment and society are more moderate and usually technically manageable – this applies to numerous industrial projects. Projects with negligible or no negative impact on the environment or society are classified as category C.

Internal KfW experts are involved in assessing project risk in terms of environmental and social impact. In cases where an in-depth review is necessary, KfW IPEX-Bank will only provide relevant financing – where necessary with additional covenants – if internationally accepted environmental and social standards are adhered to. Projects which are to be carried out within the EU or in an OECD country are exempt from the requirement for an in-depth review, as these countries have established authorisation and monitoring regimes in place for environmental and social matters which are comparable with the stringent rules in Germany.

In 2014, KfW IPEX-Bank performed an assessment of approx. 10% of the roughly 350 transactions it concluded. Two thirds of the transactions were carried out in OECD countries. These countries implement their own authorisation and monitoring regimes, which provide adequate protection against negative environmental and social impact. Thirty-four contracts underwent assessment, 16 of them relating to projects in non-OECD countries. Of these 16 projects that were subject to a separate assessment, 12 were category A and four were category B projects.

Climate and environmental protection projects in the core business

In 2014, KfW IPEX-Bank provided financing totalling EUR 2.1 billion for projects with a significant and measurable positive impact on the climate and environment. This corresponds to around 13 % of the total commitment volume. The bank is therefore making an important contribution to achieving the KfW Group's ambitious environmental and climate protection targets. In 2014, the focus was on providing financing for renewable energy projects, but also for highly efficient conventional energy projects. In addition, the bank was heavily involved in providing financing for environment-friendly means of transport such as rail vehicles, as well as investment in energy-efficient, eco-friendly production facilities in the Industries and Services sector department.

As one of the world's largest ship financiers, KfW IPEX-Bank, in keeping with the eco-shipping theme, makes it a key priority to ensure that the ships it finances are energy-efficient. An assessment method developed jointly with Germanischer Lloyd enables the bank to take a vessel's energy efficiency into account as an additional criterion when making its financing decision and to favour energy-efficient ships over other, traditionally built ones.

The assessment approach used is based on the Energy Efficiency Design Index (EEDI) and the standards of the International Maritime Organization (a specialised agency of the United Nations). It provides an indicator of ships' energy efficiency and carbon emissions.

KfW IPEX-Bank also helps make shipping more efficient and environment-friendly by financing retrofitting measures. Retrofitting involves, for example, upgrading a ship's engine, bow or propeller to increase energy efficiency. The bank also finances scrubbers, systems to remove sulphur from emissions arising from the combustion of fuel on ships. Financing eco-shipping benefits the environment and makes good business sense, since environmental performance is an increasingly important factor in the likelihood of ships being chartered and therefore also in the credit default risk.

This also underscores KfW IPEX-Bank's sense of responsibility and commitment to improving ecological living conditions – both in Germany and in the destination countries of exports throughout the world.

Forward-looking HR 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 human resources (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 is 17.1 %. The proportion of female staff remained at around 47 %. The proportion of women in management increased over the reporting year and now stands at 24.4 %.

Risk Report

Current developments

Development is expected to be stable in 2015 in terms of risk for the KfW IPEX-Bank portfolio. Export-oriented businesses in Europe will likely benefit from the euro's devaluation. The fall in the price of oil is having an indirectly beneficial effect, particularly for the transport sectors, the automotive and the chemical industry. Yet the oil price is having an adverse effect on oil exploration companies and, indirectly, on oil service companies. Growth in the steel sector is expected to remain stable, albeit at a low level. Regional conflicts (especially Ukraine/Russia) are clouding the outlook. The situation in merchant shipping remains difficult, with the exception of gas tankers. Charter markets will remain weak in 2015, leading to insufficient income levels for the foreseeable future, especially with regard to limited partnership (*Kommanditgesellschaft – KG*) financing. The crisis in merchant shipping should, however, now be largely overcome for KfW IPEX-Bank's portfolio.

As in previous years, KfW IPEX-Bank continued to develop its processes and instruments for risk management and control systematically, in view of current banking supervisory requirements. This included implementing the new CRD IV/CRR requirements regarding counterparty risk and regulatory (minimum) capital ratios as well as liquidity ratios (LCR and NSFR) and the leverage ratio. Reporting was also converted to the COREP format in line with CRD IV/CRR, and existing capitalisation measures and instruments were reviewed.

In 2014 KfW IPEX-Bank underwent the European Central Bank's comprehensive assessment within the framework of the EU's single supervisory mechanism for all banks in the euro area. The results of the Asset Quality Review (AQR) were communicated in writing to KfW IPEX-Bank on 11 February 2015. No adjustments to the balance sheet were required. The AQR and the stress test showed that, with regard to its business model, currently KfW IPEX-Bank is sufficiently capitalised overall. In the ECB stress test scenario KfW IPEX-Bank achieved a tier 1 common capital ratio of 9.42 %. The ECB decided not to include KfW IPEX-Bank among those banks under its supervision.

General conditions of risk management and control

KfW IPEX-Bank undertakes credit risks in its business activities in a deliberate and controlled fashion in order to generate adequate earnings. Ensuring the bank's risk-bearing capacity at all times forms the basis for risk management, which is an integral part of the bank's integrated risk-return management. All significant components of risk-adjusted performance management at the bank are reviewed and developed on an ongoing basis.

The financial holding group, which, besides KfW IPEX-Bank, also consists of KfW IPEX-Beteiligungsholding GmbH and Movesta Development Capital Beteiligungsgesellschaft mbH (in liquidation), is dominated to a large extent by KfW IPEX-Bank. Due to its narrowly defined range of activities, Movesta Development Capital Beteiligungsgesellschaft mbH (in liquidation) is of minimal economic importance at group level. As a result, material risks arise chiefly at the level of KfW IPEX-Bank.

Business and risk strategy

KfW IPEX-Bank's strategic business objectives are to support the German and European economies on a sustainable basis and to increase income. KfW IPEX-Bank has implemented a moderate growth strategy in order to achieve this. This strategy is pursued by reinforcing the bank's marketing activities in all sector departments and regions, selectively building up its representative offices, through syndication and with its structuring expertise. These measures enable the bank to face the challenges associated with the megatrend of "globalisation and technological progress". The bank's business activities focus on providing medium and long-term financing to support key industrial sectors in the export economy, improving economic and social infrastructure, financing environmental and climate protection projects and securing Europe's supply of raw materials.

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

- Credit risks
- Market price risks (foreign exchange risk)
- Operational risks
- Liquidity risks
- Outsourcing risks
- Concentration risks
- Regulatory risks

Credit risks (in particular counterparty risk) are the most important risk type for KfW IPEX-Bank, followed by market price risks, operational risks and outsourcing risks. Liquidity risks (in the form of funding cost risk), concentration risks and regulatory risks play a much smaller role in the bank's overall risk position.

KfW IPEX-Bank's Management Board has defined a risk strategy that sets out the principles of the bank's risk policy and thus a framework for undertaking and controlling risks. In accordance with the provisions of the Minimum Requirements for Risk Management (*Mindestanforderungen an das Risikomanagement – MaRisk*), this risk strategy addresses all business sectors and risk types that are of significance to the bank. The risk strategy also takes into account its compatibility with the general risk policy framework within the KfW Group.

Organisation of risk functions

The Management Board is the highest decision-making body with responsibility for risk control and monitoring. As such, it is responsible above all for defining the risk strategy, risk standards and risk assessment methods. KfW IPEX-Bank's risk function involves the Risk Management, Credit Analysis and Special Asset Group departments as well as Risk Controlling, which are all separate from the 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 ensured at all levels of the organisational structure.

When loan submission documents are assessed for approval, Risk Management gives its vote – the second vote – taking risk aspects into account and adhering to the principle of separating front-office and back-office functions. Moreover, it identifies and evaluates risks in the portfolio at an early stage and determines measures to reduce risks. Risk Management also reviews and approves ratings assigned to new and existing project financings. A separate organisational unit under Risk Management, the Collateral Management team, is responsible for the proper provision and valuation of all collateral. It monitors the eligibility of collateral when determining risk indicators and, in this context, continuously monitors the development of the value of collateral. The Risk Instruments and Risk Control team is responsible for maintaining and enhancing the tools used (balance sheet recognition, rating, pricing) as well as for monitoring risk functions outsourced to KfW. It is also responsible for portfolio management, operational limit management, operational risks and business continuity management.

Credit Analysis is responsible for conducting regular analyses and ratings of corporate risk and object financings, for both new and existing transactions. It also produces sector analyses. The Special Asset Group is responsible for problem loan processing and in some cases for intensified management of exposures.

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

Independently of processes, the Internal Auditing department analyses the effectiveness and adequacy 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 performance of audits are risk-based.

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

Internal capital adequacy process

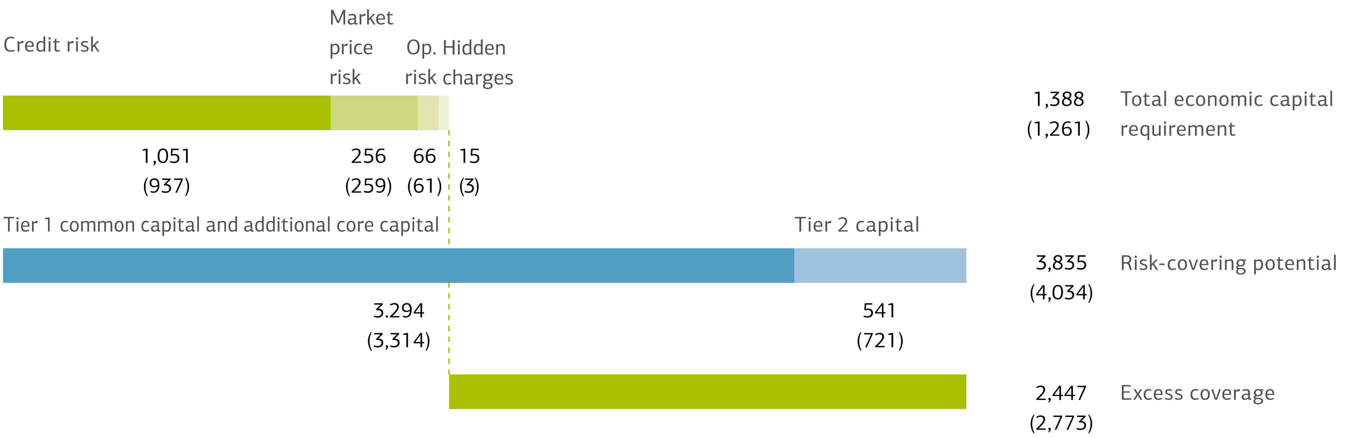
A key aspect of KfW IPEX-Bank's risk-bearing capacity plan (internal capital adequacy process, or ICAAP) is the fact that economic and regulatory provisions concerning risk-bearing capacity represent overarching objectives of equal importance. In concrete terms, this means that all risk monitoring and management activities must ensure that the bank meets an economic solvency target of 99.96 % as well as minimum values for the tier 1 capital ratio and the total capital ratio. This combines capital management measures that make good economic sense with the need to ensure that regulatory capital requirements are met. KfW IPEX-Bank uses a single definition for risk-covering potential in order to integrate these two perspectives. In both cases, the bank's risk-covering potential is based on regulatory capital in accordance with Section 10 of the German Banking Act and the CRR.

As at 31 December 2014, the risk-covering potential was EUR 3,835 million, consisting of EUR 2,500 million in tier 1 common capital, EUR 794 million in additional tier 1 capital, and EUR 541 million in tier 2 capital.

The bank's economic risk-bearing capacity is adequate and meets the 99.96% solvency target. Excess risk-covering potential above total capital requirements decreased from EUR 2,773 million in 2013 to EUR 2,447 million as at 31 December 2014.

The reduction is primarily due to the decrease in risk-covering potential. This is mainly a result of the reduced eligibility of subordinated loans within tier 2 capital based on their remaining tenor, as required by the CRR. In addition, the capital required to cover credit risk rose from EUR 937 million in the previous year to EUR 1,051 million. This increase is primarily due to a rise in the volume of business as a result of a greater level of new business and the significant appreciation of the US dollar.

Economic risk-bearing capacity as at 31 Dec. 2014
EUR in millions



In brackets: figures as at 31 Dec. 2013

The rise in the volume of business also leads to significantly higher regulatory capital requirements to cover credit risk. KfW IPEX-Bank's regulatory capital ratios were significantly lower than in the previous year as a result of the above decrease in risk-covering potential and capital due to complying with CRR requirements. As at 31 December 2014, the total capital ratio stood at 17.7% (previous year: 22.0%), the tier 1 capital ratio was 15.2% (previous year: 18.1%) and the tier 1 common capital ratio reported since 2014 was 11.5%.

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

Once a quarter, KfW IPEX-Bank evaluates a forecast scenario (expected scenario), a downturn scenario (slight economic downturn) and a stress scenario (severe recession) and their impact on its economic and regulatory risk-bearing capacity. The forecast scenario gives a preview of the bank's risk-bearing capacity at the end of the year, while the downturn and stress scenarios demonstrate the effects on earnings and the changes in capital requirements over the next twelve months.

In addition to the risk-bearing capacity plan, a capital planning process (CPP) was carried out in 2014 to safeguard the bank's risk-bearing capacity in the medium term. The CPP uses scenario-based projections regarding economic and regulatory risk-bearing capacity spanning several years to identify potential capital shortages at an early stage. This information is then used to recommend measures the bank should take to strengthen its capital or reduce risk, where applicable. This process takes account of changes in strategic targets, business activities and the economic environment. As well as a base case, the process also evaluates economic and regulatory risk-bearing capacity in a stress case.

Stress tests and test scenarios

In addition to economic scenarios used in the capital adequacy process, further stress tests are performed which take concentration risks into account and are used to examine the resilience of KfW IPEX-Bank's risk-bearing capacity. In addition to general stress tests (in accordance with the CRR and other regulations), the latest potential macroeconomic risks are used as a basis for variable scenario stress tests. Alongside these general stress tests, the particular focal points in 2014 were scenarios involving an outflow of capital from emerging countries with consequences for the German export industry and the potential consequences of further escalation of the conflict with Russia as a result of the Ukraine crisis, impacting Eastern Europe and the German economy. Inverse stress tests are also used to show how KfW IPEX-Bank's risk-bearing capacity could be pushed to its limits in unfavourable circumstances.

Credit risks

Lending is the core business of KfW IPEX-Bank. An important focus of overall risk management therefore lies in controlling and monitoring risks in the lending business. Counterparty default risk is the most significant category of credit risk. This comprises the risk subcategories of classic credit risk (credit risk in the narrower sense), counterparty risk, securities risk and country risk.

Migration risks (or credit rating risks) also have a significant effect on credit risk exposure. These are included in the above stress tests, among other parts of the bank's risk management activities.

Credit risk also comprises settlement risk and validity risk (creditor's risk that a claim against third parties does not exist).

Measurement of counterparty default risk

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

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

As required by the CRR, the bank's IRBA rating systems are used to estimate the central risk parameters separately[1)]:

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

With the exception of specialist financing transactions, these processes are based on scorecards and follow a uniform, consistent model architecture. For these types of transactions, various simulation-based rating modules, licensed from an external provider, are used internally to measure counterparty default risk.

In such cases, the risk assessment is mainly determined by the cash flows generated by the financed object. The rating procedures are calibrated to a one-year probability of default. Both ratings for new customers and follow-on ratings for existing customers are defined by observing the principle of dual control in the back-office departments.

Comparability of individual rating processes is guaranteed by depicting the probabilities of default on a group-wide, uniform master scale. The master scale consists of 20 different subclasses which can be grouped together into four classes: 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 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 ensure that it is possible to respond promptly to changing general conditions. The objective is to increase the selectivity of all rating processes continuously.

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

Both the outstanding volume of lending and the valuation of collateral exert a significant influence on the amount of default. As part of the collateral valuation for eligible collateral[2)], expected net proceeds from realisation of collateral in the event of default are estimated over the entire tenor of the loan. This takes account of collateral value adjustments that, for personal collateral, are based on the probability of default and the loss ratio of the collateral provider. In the case of security in rem, adjustments are attributable not only to market price fluctuations but also, and principally, to losses in value due to depreciation. The value thus calculated is an important component of loss estimates (LGD). Depending on the availability of data, the various valuation procedures for individual collateral types are based on internal and external historical loss data as well as on expert estimates. The valuation parameters are subject to a regular validation process. A reliable valuation of the collateral position is therefore guaranteed at the level of individual collateral items.

Interaction between risk properties of the individual commitments in the credit portfolio is assessed using an internal portfolio model. Pooling together large parts of the portfolio into individual borrowers or borrower groups harbours the risk of major defaults, which threaten business continuity. Portfolio management at KfW IPEX-Bank evaluates individual, industry and country risk concentrations based on the economic capital concept. 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.

Management of counterparty default risk

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

Limit management

The limit management system (LMS) is used primarily to limit default risks. It also allows for monitoring of individual and concentration risks and correlated overall risks. Limitations are based on a limit anchor value and are set per group of connected clients, and per country. Limits are also set for selected sectors. Limits are applied based on the variables of net exposure and economic capital. Individual limits deviating from standard limits may be defined, taking into account internal guidelines concerning the allocation of individual limits.

Risk guidelines

In addition to the LMS, the credit portfolio is managed by way of risk guidelines. For this purpose, Risk Management proposes specific guidelines based on the current risk situation and the business policy objective. These are approved by the Management Board and must be taken into account by the sector departments when initiating business. Risk guidelines can be applied to all relevant key credit risk data (e.g. maturity, collateral, rating), and may be structured by sector, region or product.

Portfolio management

In cases where trigger events occur, portfolio management is increasingly helping to improve the risk/return ratio of KfW IPEX-Bank's portfolio, by identifying ways to reduce risk and by bringing about decisions.

Portfolio management is also included in the annual planning process in order to integrate its risk and portfolio perspective into both the strategy process and group business sector planning. Furthermore, portfolio management is taken into consideration in the development of appropriate measures to facilitate syndication of individual transactions in the bank's market portfolio, so as to create transparency for the front-office departments regarding the effect of portfolio measures on performance.

Portfolio risk committee

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

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

Intensified loan management and problem loan processing

Exposures with a considerably higher risk of default (watch list cases) are subject to intensified loan management. This involves closely monitoring the economic performance of the borrower and examining the transferred collateral on a regular basis (throughout the year). In the case of non-performing loans (NPL) the possibility of restructuring or other remedial action is considered. If restructuring or other remedial action is not possible or not worthwhile economically, the loan will be liquidated and the collateral realised, or the loan will be sold on the distressed market. The Special Asset Group is in charge of processing non-performing loans. In some cases, it also helps to manage 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.

On 31 December 2014 the independent task force Special Asset Group Shipping, which was responsible for restructuring limited partnership (*Kommanditgesellschaft – KG*) ship financings with single-purpose companies, was integrated into the Special Asset Group department. The KG ship portfolio therefore continues to be managed from the back office.

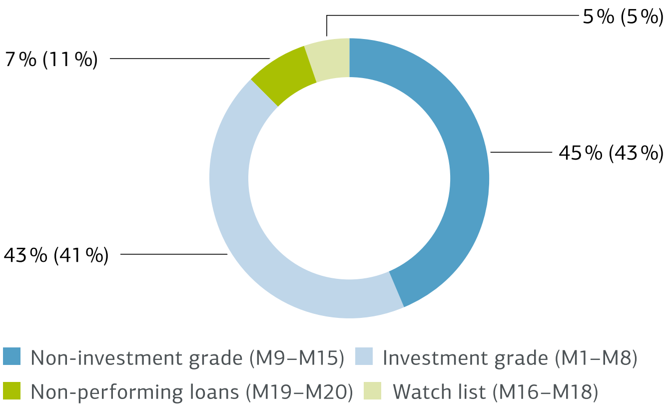
Counterparty risk committee

The counterparty risk committee, which convenes every month and is chaired by the member of the Management Board in charge of risk control, discusses risk-related developments in the credit portfolio, provides an overall perspective on alternatives for action with regard to watch list and NPL cases as well as other commitments subject to particular observation, and monitors their implementation. In specific cases the Management Board of KfW IPEX-Bank may have to take decisions.

Structure of counterparty default risk

Net exposure by rating class[1)]

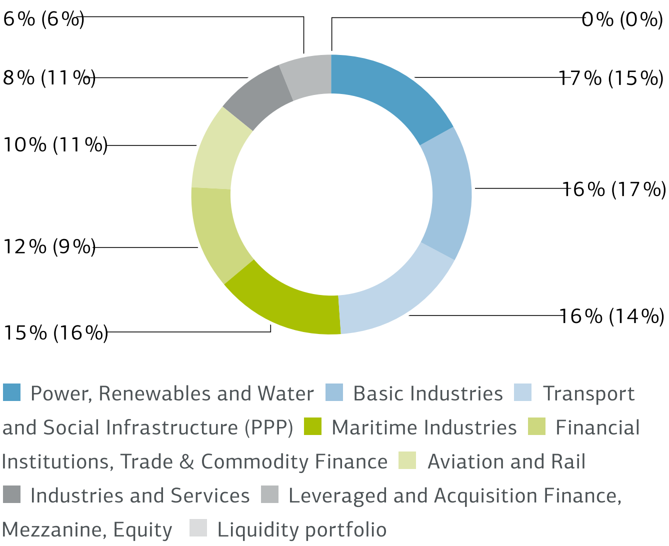
2014 (2013), Total net exposure: EUR 7.9 billion



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

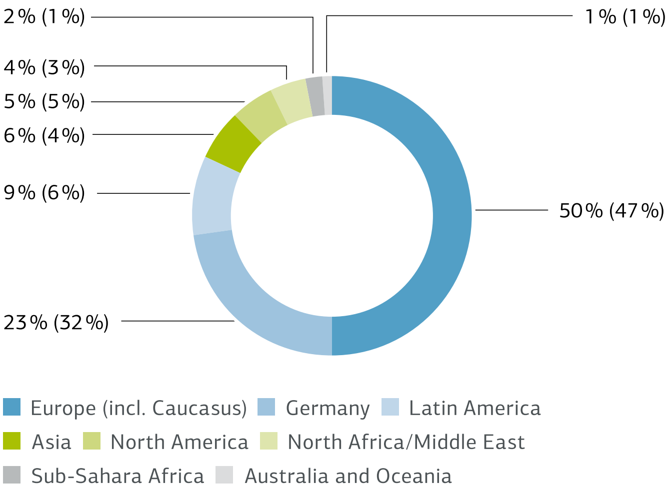
Total net exposure is EUR 7.9 billion. The investment grade class makes up 43 % of the total, the non-investment grade category 45 %, and watch list and NPL loans 5 % and 7 %, respectively. The average probability of default of the performing portfolio fell very slightly from 1.39 % to 1.37 % in financial year 2014.

Economic capital requirements by sector department
2014 (2013), Total ECAP: EUR 1,051 million



The above overview shows the diversification of the portfolio across the bank's sector departments. Most of the economic capital is allocated to the sector department of Power, Renewables and Water with 17%, followed by Transport and Social Infrastructure (PPP), and Basic Industries with 16% each.

Economic capital requirements by region
2014 (2013), Total ECAP: EUR 1,051 million



In regional terms, business is focused on Europe, including Germany, where 73% of economic capital is allocated to counterparty default risk. Country risks are of comparatively minor importance to the bank given the regional distribution and collateral.

Risk provisions for counterparty default risks

All identifiable loan default risks in the lending business are adequately taken into account by creating risk provisions. Specific loan loss provisions and other provisions for the lending business decreased significantly year-on-year to EUR 479 million as at 31 December 2014. This is primarily due to greater utilisation of risk provisions in the Maritime Industries sector department following the termination of limited partnership (KG) ship financings, as well as a smaller increase in provisions overall.

The portfolio of specific loan loss provisions and lending business provisions for disbursed loans, financial guarantees and irrevocable loan commitments, structured according to sector department, was as follows as at 31 December 2014:

Specific loan loss provisions

Sector department	31 Dec. 2014 EUR in millions	31 Dec. 2013 EUR in millions	Change EUR in millions
Maritime Industries	317	462	–145
Industries and Services	47	55	–8
Aviation and Rail	29	48	–19
Basic Industries	27	24	3
Power, Renewables and Water	22	35	–13
Transport and Social Infrastructure (PPP)	16	4	12
Financial Institutions, Trade & Commodity Finance	14	12	2
Leveraged and Acquisition Finance, Mezzanine, Equity	7	20	–13
Total	**479**	**660**	**–181**

Portfolio loan loss provisions as at 31 December 2014 by sector department were as follows:

Portfolio loan loss provisions

Sector department	31 Dec. 2014 EUR in millions	31 Dec. 2013 EUR in millions	Change EUR in millions
Power, Renewables and Water	23	15	8
Maritime Industries	22	20	2
Aviation and Rail	14	10	4
Transport and Social Infrastructure (PPP)	14	11	3
Basic Industries	13	18	–5
Financial Institutions, Trade & Commodity Finance	12	6	6
Industries and Services	6	10	–4
Leveraged and Acquisition Finance, Mezzanine, Equity	4	3	1
Other	1	6	–5
Total	**109**	**99**	**10**

Write-downs on equity investments totalling EUR 8 million were also required during the financial year for solvency reasons. There were no other write-downs on other securities within the investment portfolio (bonds and shares) in 2014.

Market price and liquidity risks

As a result of the business policy decision not to engage in proprietary trading and not to generate short-term gains through trading, KfW IPEX-Bank is a non-trading book institution. Market price risks are managed so as to ensure that trading transactions do not fall within the definition of Article 4 (1)(86) of the CRR. The portfolios have a medium to long-term investment horizon. Market price risks are generally managed so as to ensure that they play as subordinate a role as possible at KfW IPEX-Bank from an overall risk perspective.

Market price risks of relevance to the bank are interest rate risk, foreign exchange risk and credit spread 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. Credit spread risk is defined as the risk of loss arising from credit spread changes adverse to KfW IPEX-Bank. At KfW IPEX-Bank, credit spread risk plays a role for securities on the assets side held for liquidity management purposes as well as for securities lending. The risk of issuer default is not allocated to credit spread risk; rather, it forms part of counterparty risk.

With regard to liquidity risk, the bank distinguishes between solvency risk and funding cost risk. Solvency risk is the risk of not settling payment obligations at all, on time and/or not to the required extent. The bank defines funding cost risk as the risk that loans are refinanced at less favourable conditions than was assumed at the time they were extended. Funding cost risk also takes into account the risk that funds received from unscheduled loan repayments can be reinvested only at less favourable conditions.

Interest rate risk and foreign exchange risk

As part of its market price risk strategy, the Management Board of KfW IPEX-Bank has explicitly decided 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-interest EUR and USD loans is carried out. In order to prevent concentrations in individual maturity bands, the interest rate risk position in the equity investment portfolio – measured against cash flow surpluses – is divided almost equally among bonds with maturities of up to five years. 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 (outside the equity investment portfolio), the risk strategy dictates that interest rate risks must always be avoided. In terms of both fixed-income and variable-interest items in the remaining interest book outside 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 for the purpose of generating income from exchange rate fluctuations. Any individual foreign exchange risks arising indirectly in the course of business are closed, wherever this is possible and economically viable, through refinancing 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 (fund for general banking risks in accordance with Section 340g of the German Commercial Code [*Handelsgesetzbuch – HGB*]). This is carried out to only a limited extent for the purpose of stabilising the regulatory risk-bearing capacity, and not to generate short-term income from exchange rate fluctuations. The level of foreign exchange risk is measured on a regular basis and restricted by means of a risk budget.

Interest rate risk and foreign exchange risk are measured and controlled on a net present value basis using the economic capital concept. In this process, a present value loss is calculated that is highly unlikely to be exceeded within one year across the entire portfolio of KfW IPEX-Bank in the event of possible changes in the yield curve or foreign exchange rates. The economic capital requirement for both interest rate risk and foreign exchange risk is composed of a capital buffer for present value losses and a risk value. The capital buffer for present value losses is for a present value loss that is accepted by the bank's management and may occur within one year. Furthermore, any losses in value that may occur when a position is closed are measured as value at risk (VaR) with a holding period of two months and a confidence level of 99.96%. Diversification effects between interest rate and foreign exchange risks that would reduce overall risk are not taken into account. Since two separate models are used, which are both based on a variance/covariance approach, a conservative assumption is made that there is a completely positive correlation between both risks. The following table shows the interest position as well as interest rate risk and foreign exchange risk measured as at 31 December 2014:

Present value interest position	Economic capital requirement for interest rate risk	Economic capital requirement for foreign exchange risk
EUR in millions	EUR in millions	EUR in millions
3,420	75	159

The 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 a scenario with a confidence level of 99.96%, the loss would amount to less than 3% of the total present value. At less than 5% of the total present value, the potential loss with same confidence level due to exchange rate fluctuations is also comparatively 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 2014, for measuring credit spread risk (excluding securities for which an impairment had been recognised) the securities portfolio had a nominal volume of EUR 1,565 million and contained 14 positions. The issuer structure as at the reporting date was as follows:

Issuer	Nominal volume
	EUR in millions
KfW	1,320
Corporates	230
Pfandbriefe	15
Total	**1,565**

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 2014 the nominal values of the securities portfolio for measuring credit spread risk broke down into the following sub-portfolios:

Sub-portfolio	Nominal volume
	EUR in millions
Equity investment portfolio	1,320
Liquidity portfolio	15
Other securities	230
Total	**1,565**

The liquidity and equity investment portfolios are held in order to supply liquidity and meet liquidity requirements within the meaning of Section 11 of the German Banking Act (*Kreditwesengesetz – KWG*) in conjunction with the German Liquidity Regulation (*Liquiditätsverordnung – LiqV*). Moreover, securities within the equity investment portfolio are treated as highly-liquid assets for the purpose of calculating and reporting the liquidity coverage ratio in accordance with the Capital Requirements Regulation (CRR).

The economic capital concept is used to measure 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 credit spreads. Credit spread risk is measured as the value at risk (VaR) based on a historical simulation. The credit spread risk as at 31 December 2014 was EUR 21.9 million. This amount of credit spread risk shows that the potential loss in the value of the securities portfolio due to changes in credit spreads is relatively small, at just over 2 % of the total nominal value.

Solvency risk

Solvency risk 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 an existing refinancing agreement with KfW. The refinancing agreement guarantees KfW IPEX-Bank access to liquidity through KfW at any time (at market conditions). KfW IPEX-Bank also has marketable securities as well as access to credit lines with KfW in order to ensure that it is sufficiently capable of meeting its payment obligations at all times in accordance with Section 11 of the German Banking Act in conjunction with the German Liquidity Regulation.

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 ratio in accordance with the German Liquidity Regulation. Furthermore, KfW IPEX-Bank calculates the liquidity coverage ratio and the net stable funding ratio in accordance with the Capital Requirements Regulation and reports them to the responsible supervisory authorities. Operational liquidity is managed by KfW IPEX-Bank's Treasury department based on short, medium and long-term liquidity planning. In addition, a daily forecast is calculated for the liquidity ratio of the first maturity band (remaining terms up to 1 month) in order to keep the ratio within a specified target range. As part of its liquidity management, KfW IPEX-Bank's Treasury determines – within a defined management framework – the measures to be taken to achieve optimum liquidity positions.

Funding cost risk

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

Operational risks

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

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

Reputational risks and strategic risks are not included. Supervisory requirements regarding risk management are derived from the standard approach according to the Capital Requirements Regulation, which is used as a basis for calculating regulatory capital requirements for operational risks at KfW IPEX-Bank, as well as from the Minimum Requirements for Risk Management (*Mindestanforderungen an das Risikomanagement – 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 sub-risks that are manageable in quantitative terms.

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 both operational risks and business continuity management as the central point of responsibility for operational risk issues;
– Inclusion of the Internal Auditing department as an independent control mechanism.

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

Operational risks are systematically identified and assessed during an annual risk assessment. The operational risk profile of KfW IPEX-Bank is established on this basis.

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

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

Derived measures that prevent, reduce or shift an identified operational risk are recorded in a measures database. This is done for documentation purposes and also to monitor the implementation of the measures.

Outsourcing risks

KfW IPEX-Bank outsources key elements of funding, finance, financial and risk controlling, IT and reporting to KfW. These constitute major outsourcing arrangements as defined in the Minimum Requirements for Risk Management, which the outsourcing institution must monitor accordingly. Outsourcing arrangements are governed by framework contracts and service level agreements.

KfW IPEX-Bank's outsourcing monitoring activities are divided into monitoring measures that are process-dependent, measures that are performed alongside processes, and those that are independent of processes. The service recipient's main points of contact in the relevant department are responsible for specialised process-dependent monitoring on a decentralised basis, while KfW IPEX-Bank's outsourcing officer or sourcing managers are responsible for formal aspects of these monitoring activities on a centralised basis. The bank's Legal Affairs and Regulation team provides centralised support for the monitoring of the processes. Internal Auditing and the bank's external auditor carry out process-independent monitoring.

Risk concentrations

Concentrations are important for KfW IPEX-Bank as overarching risks. KfW IPEX-Bank differentiates between intra-risk concentrations (within one risk type) and inter-risk concentrations (spanning several risk types).

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

Due to the international nature of the bank's business activities, financing is also provided in foreign currencies. This has led to a currency concentration in the USD loan book. In order to avoid the resulting foreign exchange risks as far as possible, funding takes place in the same currency.

Inter-risk concentrations are less pronounced than intra-risk concentrations. Given the high proportion of US dollar assets in KfW IPEX-Bank's portfolio, interactions between foreign exchange risks and counterparty risks are of particular significance.

As part of its regular risk reporting process, the bank describes risk concentrations in detail and monitors them on an ongoing basis. Risk concentrations are also included in stress tests.

Regulatory risk

Regulatory risks for KfW IPEX-Bank arise primarily through the more stringent requirements for minimum capital ratios and potentially negative consequences for KfW IPEX-Bank's business model resulting from future changes in the regulatory environment. Furthermore, the regulatory assessments currently being carried out (Asset Quality Review and ECB stress test) demonstrate that this can give rise to material costs for KfW IPEX-Bank. It is possible that similar costs will be incurred in the future.

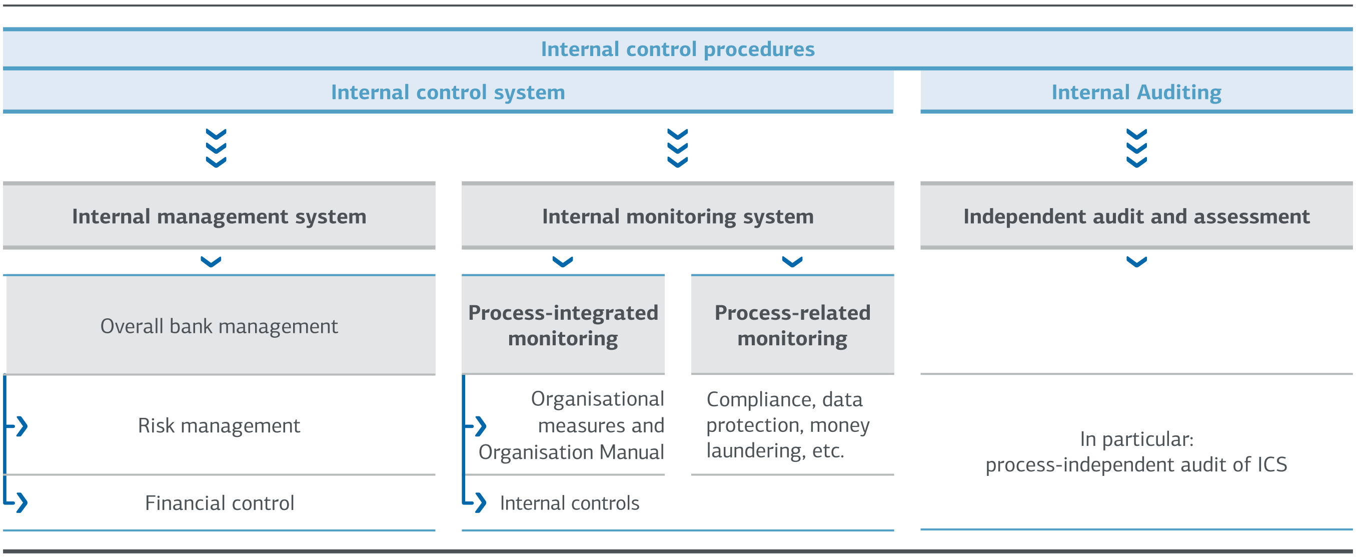
Regulatory risk is accounted for using a conservative traffic light system as a management tool and early warning instrument in relation to minimum requirements for regulatory capital ratios. Furthermore, KfW IPEX-Bank actively tracks changes in its legal environment, enabling regulatory changes to be identified at an early stage and appropriate measures to be taken.

Internal control procedures

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

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

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



Internal Auditing

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

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

With regard to outsourced functions, Internal Auditing's reporting also takes into account the findings of audits carried out by the respective companies' internal auditing departments.

KfW IPEX-Bank's Internal Auditing department can also perform its own audits of outsourced processes where necessary.

Internal control system –
Process-related monitoring – Compliance

Compliance with regulatory requirements and voluntary performance standards is part of KfW IPEX-Bank's corporate culture. KfW IPEX-Bank's compliance organisation includes, in particular, systems for preventing insider trading, conflicts of interest, money laundering, terrorist financing and other criminal activities. It also encompasses regulatory compliance. Accordingly, the bank has binding rules and procedures that are continually updated to reflect the latest statutory and regulatory conditions as well as market requirements. Compliance performs risk-based control procedures on the basis of a control plan. Regular training sessions on compliance are held for KfW IPEX-Bank employees.

Internal control system – Process-integrated monitoring – Internal controls

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

Monitoring measures integrated into processes help to prevent, reduce, detect and/or correct processing errors or financial losses. For this purpose control activities have been incorporated into the business processes of KfW IPEX-Bank. The effectiveness of these activities is regularly assessed and reported annually to the Audit Committee of the Board of Supervisory Directors of KfW IPEX-Bank. The procedures and methods used to assess the effectiveness of these internal controls are based on the established processes of the Internal Auditing department, which are in turn based on applicable standards (i.e. DIIR, IIA, ISA, IDW)[4)].

Accounting-related internal control system

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

The performance of controls over the preparation of the annual financial statements is monitored by the respective unit using ICS process-control checklists. 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.

The outsourcing of key KfW IPEX-Bank processes to KfW is taken into account accordingly in the internal control system documentation.

3) COSO = Committee of Sponsoring Organisations of the Treadway Commission

4) 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

Global economic growth was generally disappointing in 2014. A number of major countries and economic areas grew far less strongly than had been anticipated at the beginning of the year. The global pace of growth is likely to remain discouraging in 2015 as well; at best, it may increase slightly. Industrialised nations continue to grow more slowly than developing and emerging countries, but nevertheless provide important economic stimulus. This is especially true of the USA, whose economy is expanding at a comparatively high rate, driving the global economy and pulling other countries with it (growth locomotive). However, the level of economic performance among the group of industrialised nations varies considerably. In the euro area and Japan, growth will continue to be weak in 2015, with many countries remaining below their potential.

There is also a wide spectrum of growth levels among the developing and emerging countries. Whereas Russia is facing a genuine crisis and Brazil must likely cope with weak economic growth, China's growth rate is no longer expected to remain in the double-digit range, although a hard landing is not anticipated, either. India and Indonesia are growing quite strongly.

A significant fall in the oil price since mid-2014 will boost the economies of oil importing countries again in 2015. Industrialised nations must continue implementing the post-crisis reform agenda, a process which may take a long time. The geopolitical risks remain serious. The way in which they will develop and their impact on the global economy are extremely difficult to predict.

Economic growth in the member states of the European Economic and Monetary Union (EMU) is expected to remain weak in 2015. Private consumption will benefit from a slight decrease in unemployment rates and lower energy prices. Net exports will also make a positive contribution to growth, not least because the weak euro will make exports more attractive. However, significantly higher economic growth is not expected. Overall, KfW IPEX-Bank anticipates that GDP in the countries of the European Economic and Monetary Union (EMU) will grow by around 1 % in real terms during the course of 2015 compared with the previous year. This fragile situation means that the euro area remains vulnerable to shocks.

The economic situation in Germany appears less favourable at the start of 2015 than it did a year ago. Confidence among businesses is considerably lower owing to numerous geopolitical uncertainties, but mainly because hopes of a recovery in the euro area were repeatedly dampened. At the turn of the year there were signs of more optimistic business expectations but, despite stimulus from the fall in the oil price and devaluation of the euro, real economic growth is expected to pick up only slowly – assuming the scale of the crisis between Russia and Ukraine can be contained in the not so distant future and the euro area gets back on a growth track. Difficult conditions overall throughout the world, including potential for further uncertainty from political discussions in the euro area following the elections in Greece, are not solely impacting growth in German exports, but they also mean that businesses are very reluctant to invest at present. All in all, GDP growth is forecast to be weaker in 2015 than in the previous year. KfW IPEX-Bank expects growth of 1 % in real terms on the basis of data available at the start of the year. This forecast is, however, subject to a high degree of uncertainty, as evidenced by the broad spectrum of publicly available growth forecasts for 2015, ranging from just under 1 % to around 2.5 %.

Given these global economic conditions, demand for exports from Germany and Europe, and hence also for appropriate financing, should remain at least stable.

The banking market continues to be characterised by intense competition and high liquidity. The latter effect is heightened by institutional investors, who are under permanent investment pressure due to the current low-interest environment and therefore looking for alternative investment possibilities with stable cash flows. KfW IPEX-Bank will adapt to these market conditions that are subject to various influencing factors by working constructively with its partners on the financing market to develop solutions for German and European industry to support their export and investment projects.

KfW IPEX-Bank aims to further strengthen its position as a leading specialist financier and stable partner of the key industries for the German and European economies in 2015. Overall, the development of the sales markets in industrialised and emerging countries offers continued export opportunities for German and European companies. In 2015 KfW IPEX-Bank will therefore stay focused on helping German and European companies go international with tailored medium and long-term financing for exports and foreign investment projects.

The bank expects good market opportunities for the Power, Renewables and Water sector department in 2015. It will continue to take on new asset finance business 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 and European export economies. Together with industrialised countries, these include, in particular, the emerging markets in Asia, southern Africa and Latin America.

Sales and marketing activities in all sector departments and regions will be maintained at a high level and selectively reinforced, and the bank's positioning as a leading specialist financier with proven structuring expertise will be further expanded. By developing its product portfolio and moderately expanding its network of foreign representative offices, the bank will build on existing customer relationships and tap into new customer groups for financings in the E&P business sector. In addition, the bank intends to maintain its strategic focus while generating a constant share of new business that contributes to climate and environmental protection. KfW IPEX-Bank again aims for moderate, organic growth for the coming financial year. The 2015 target for new commitments is EUR 14.2 billion (2014 target: EUR 13.2 billion) and growth of around 5 % per annum is expected in the subsequent years. This target is subject to the customary forecasting uncertainty arising from the unpredictability of major factors that influence the course of the bank's business. This uncertainty also applies to the forecast result for 2015, which will depend largely on the level of risk provisions required.

››› Financial Statements, Notes, Auditor’s Report, Country-by-Country Reporting as per Section 26a of the German Banking Act and Corporate Governance Report

Financial Statements of KfW IPEX-Bank GmbH 2014

Balance Sheet of KfW IPEX-Bank GmbH as at 31 December 2014

Assets

		31 Dec. 2014			31 Dec. 2013		
	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			7			6	
b) funds with central banks			0			0	
of which: with the Deutsche Bundesbank	*0*						
c) funds held with postal giro offices			0	**7**		0	**6**
2. Loans and advances to banks							
a) mortgage loans			0			0	
b) municipal loans			1,237,464			0	
c) other loans and advances			911,734	**2,149,198**		848,361	**848,361**
of which: due on demand	*1,543*						
of which: collateralised by securities	*0*						
3. Loans and advances to customers							
a) mortgage loans			764,417			0	
b) municipal loans			1,336,023			1,165,544	
c) other loans and advances			20,133,357	**22,233,797**		19,209,931	**20,375,475**
of which: collateralised by securities	*0*						
4. Bonds and other fixed-income securities							
a) money market instruments							
aa) of public issuers		0			0		
of which: eligible as collateral with the Deutsche Bundesbank	*0*						
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		0			0		
of which: eligible as collateral with the Deutsche Bundesbank	*0*						
bb) of other issuers		1,613,526	1,613,526		1,893,320	1,893,320	
of which: eligible as collateral with the Deutsche Bundesbank	*1,385,842*						
c) own bonds			0	**1,613,526**		0	**1,893,320**
Nominal value	0						
5. Shares and other non-fixed-income securities				**10,739**			**9,185**
6. Investments				**102,546**			**117,745**
of which: in banks	*360*						
of which: in financial services institutions	*0*						
7. Assets held in trust				**160,867**			**156,700**
of which: loans held in trust	*160,867*						
8. Intangible asset							
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			310			82	
c) goodwill			0			0	
d) payments on account			0	**310**		0	82
9. Property, plant and equipment				**416**			**428**
10. Other assets				**4,407**			**13,602**
11. Prepaid expenses and deferred charges							
a) from issuing and lending			2,380			3,348	
b) other			32,786	**35,166**		18,325	21,673
Total assets				**26,310,979**			**23,436,577**

Liabilities and equity

		31 Dec. 2014			31 Dec. 2013		
	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands
1. Liabilities to banks							
a) registered Mortgage Pfandbriefe in issue			0			0	
b) registered Public Pfandbriefe in issue			752,056			0	
c) other liabilities			20,276,530	**21,028,586**		18,424,460	**18,424,460**
of which: due on demand	*25,911*						
of which: registered Mortgage Pfandbriefe pledged as collateral for loans taken up	*0*						
and registered Public Pfandbriefe	*0*						
2. Liabilities to customers							
a) registered Mortgage Pfandbriefe in issue			0			0	
b) registered Public Pfandbriefe in issue			0			0	
c) savings deposits							
ca) agreed term or period of notice of three months		0			0		
cb) agreed term or period of notice of over three months		0	0		0	0	
d) other liabilities			360,321	**360,321**		420,461	**420,461**
of which: due on demand	*15,146*						
of which: registered Mortgage Pfandbriefe pledged as collateral for loans taken up	*0*						
and registered Public Pfandbriefe	*0*						
3. Liabilities held in trust				**160,867**			**156,700**
of which: loans held in trust	*160,867*						
4. Other liabilities				**31,513**			**3,293**
5. Deferred income							
a) from issuing and lending			6,990			16,356	
b) other			30,949	**37,939**		15,949	**32,305**
6. Provisions							
a) provisions for pensions and similar commitments			99,028			82,427	
b) tax provisions			54,398			23,803	
c) other provisions			64,053	**217,479**		95,147	**201,377**
7. Subordinated liabilities				**823,655**			**725,111**
8. Fund for general banking risks				**319,718**			**281,466**
9. Equity							
a) called capital							
subscribed capital		2,100,000			2,100,000		
less uncalled outstanding contributions		0	2,100,000		0	2,100,000	
b) capital reserves			949,992			949,992	
c) retained earnings							
ca) legal reserve		0			0		
cb) reserves for shares in a company in which KfW IPEX-Bank holds a controlling or majority stake		0			0		
cc) statutory reserve		0			0		
cd) other retained earnings		141,412	141,412		141,412	141,412	
d) balance sheet profit			139,497	**3,330,901**		0	**3,191,404**
Total liabilities and equity				**26,310,979**			**23,436,577**
1. Contingent liabilities							
a) from the endorsement of rediscounted bills		0			0		
b) from guarantees and guarantee agreements		2,078,605			2,170,184		
c) assets pledged as collateral on behalf of third parties		0	2,078,605		0	2,170,184	
2. Other obligations							
a) commitments deriving from reverse repurchase agreements		0			0		
b) placing and underwriting commitments		0			0		
c) irrevocable loan commitments		7,046,027	7,046,027		6,368,105	6,368,105	

Income Statement of KfW IPEX-Bank GmbH from 1 January 2014 to 31 December 2014

Expenses

		1 Jan. – 31 Dec. 2014			1 Jan. – 31 Dec. 2013		
	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands
1. Interest expense				325,896			330,404
2. Commission expense				1,650			1,878
3. Administrative expense							
a) personnel expense							
aa) wages and salaries		67,580			61,801		
ab) social insurance contributions, expense for pension provision and other employee benefits		19,299	86,879		9,861	71,662	
of which: for pension provision	*11,840*						
b) other administrative expense			102,764	**189,643**		97,395	169,057
4. Depreciation and impairment on intangible assets and property, plant and equipment				**188**			191
5. Other operating expense				**14,771**			63,694
6. Write-downs of and valuation adjustments on loans and specific securities and increase in loan loss provisions				**90,851**			189,290
7. Appropriations to the fund for general banking risks				**38,252**			0
8. Write-downs of and valuation adjustments on investments, shares in affiliated companies and securities treated as fixed assets				**0**			2,596
9. Taxes on income				**60,772**			21,393
10. Net income for the year				**139,497**			84,862
Total expenses				**861,520**			**863,365**
1. Net income for the year				**139,497**			84,862
2. Allocations to other retained earnings				**0**			(84,862)
Balance sheet profit				**139,497**			**0**

Income

		1 Jan. – 31 Dec. 2014			1 Jan. – 31 Dec. 2013		
	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			599,911			595,015	
b) fixed-income securities and debt register claims			23,875	**623,786**		28,041	623,056
2. Current income from							
a) shares and other non-fixed-income securities			918			918	
b) investments			99			12,465	
c) shares in affiliated companies			0	**1,017**		0	13,383
3. Commission income				**186,243**			151,585
4. Withdrawals from the fund for general banking risks				**0**			12,736
5. Earnings on allocations to investments, shares in affiliated companies and securities treated as fixed assets				**1,229**			0
6. Other operating income				**49,245**			62,605
Total income				**861,520**			**863,365**

Notes

Accounting and valuation regulations

The individual financial statements of KfW IPEX-Bank have been prepared in accordance with the requirements of the German Commercial Code (*Handelsgesetzbuch – HGB*), the Ordinance Regarding the Accounting System for Banks and Financial Services Institutions (*Verordnung über die Rechnungslegung der Kreditinstitute und Finanzdienstleistungsinstitute – RechKredV*) and the Limited Liability Companies Act (*Gesetz betreffend die Gesellschaften mit beschränkter Haftung – GmbHG*), and, since 2014, in accordance with the requirements for Pfandbrief banks (in particular the German Pfandbrief Act (*Pfandbriefgesetz – PfandBG*). Disclosures on individual balance sheet items which may appear in either the balance sheet or the notes are made in the Notes.

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

Securities held under current assets are valued strictly at the lower of cost or market principle. Where these securities are pooled together with derivative financial instruments to form a valuation unit for hedging interest rate risks, they are valued at amortised cost – to the extent that there were compensating effects in the underlying and hedging transactions.

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

There are no held-for-trading securities.

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

Property, plant and equipment is reported at acquisition or production cost, reduced by ordinary depreciation in accordance with the expected useful life of the items. Additions and disposals of fixed 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 EUR 150 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.

The bank does not capitalise internally generated intangible assets in accordance with Section 248 (2) of the Code.

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

KfW IPEX-Bank was issued a licence to conduct Pfandbrief (German covered bond) business by the German Federal Financial Supervisory Authority (*Bundesanstalt für*

Finanzdienstleistungsaufsicht – BaFin) on 27 December 2013. On this basis it made its first issues in 2014, in the form of registered Public Pfandbriefe, which were purchased in their entirety by KfW. The Pfandbriefe were accordingly reported under Liabilities to banks. The balance sheet template was adapted in accordance with the requirements in force for Pfandbrief banks (notes to the Template 1 annex, Section 2 of the Ordinance Regarding the Accounting System for Banks and Financial Services Institutions). Prior-year values for mortgage loans and municipal loans to banks have not been stated due to lack of available data.

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

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

	31 Dec. 2014
	in % p.a.
Interest rate for accounting purposes	4.54
Projected unit credit dynamics[1)]	1.00 to 3.00
Index-linking of pensions[2)]	1.00 to 2.50
Staff turnover rate	3.40

[1)] Varies according to whether staff are covered by a collective agreement
[2)] Varies according to applicable pension scheme

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 not to recognise a net deferred tax asset resulting from the offsetting of deferred tax assets and liabilities.

Sufficient allowance has been made for risks arising from the lending business. The risk provisions recognised in the balance sheet for the lending business consist of specific loan loss provisions affecting net income (the amount corresponds to the difference between the carrying amount of the loan and the present value of the expected cash inflows from interest and principal repayments as well as the payment streams from collateral) and portfolio loan loss provisions for loans and advances for which no specific loan loss provisions have been made. In addition, risk provisions are recognised for contingent liabilities and irrevocable loan commitments, both for individually identified risks (specific loan loss provisions) and for impairments that have not yet been identified individually (portfolio loan loss provisions). Additions and reversals are reported net under the item "Write-downs of and valuation adjustments on loans and specific securities and increase in loan loss provisions". Use is made in the income statement of options to offset pursuant to Section 340c (2) and

Section 340f (3) of the German Commercial Code. Interest income on non-performing loans is recognised in principle on the basis of expectation.

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

In accordance with KfW IPEX-Bank's accounting practice up until the end of the 2012 reporting period, the E&P trust business administered under a dispositive trust for KfW was reported in the balance sheet (assets held in trust and liabilities held in trust). Amendments to the underlying agency agreement in 2013 meant that KfW IPEX-Bank's legal position changed to that of a trustee with power of attorney. Consequently, by (analogous) application of Section 6 (3) of the Ordinance Regarding the Accounting System for Banks and Financial Services Institutions, the bank has no longer recorded the E&P trust business in its balance sheet since the 2013 reporting period.

The valuation of interest rate-related transactions in the banking book (*Refinanzierungsverbund*) reflects KfW IPEX-Bank's interest rate risk management. The principle of prudence as required under the German Commercial Code is taken into account by establishing a provision in accordance with Section 340a 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 340g of the Code.

Group affiliation

Consolidated financial statements are not required 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

	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
		Maturity with agreed term or period of notice					
	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands
Loans and advances to banks[1]	1,236,177	127,135	523,799	227,447	29,272	5,368	2,149,198
(as at 31 Dec. 2013)	*194,692*	*85,041*	*435,620*	*114,088*	*14,201*	*4,719*	*848,361*
Loans and advances to customers	0	991,979	2,652,406	11,104,502	7,399,961	84,949	22,233,797
(as at 31 Dec. 2013)	*0*	*1,081,628*	*2,540,559*	*10,043,435*	*6,627,431*	*82,422*	*20,375,475*
Total	**1,236,177**	**1,119,114**	**3,176,205**	**11,331,949**	**7,429,233**	**90,317**	**24,382,995**
(as at 31 Dec. 2013)	*194,692*	*1,166,669*	*2,976,179*	*10,157,523*	*6,641,632*	*87,141*	*21,223,836*
in %	**5**	**5**	**13**	**47**	**30**	**0**	**100**

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

	Loans and advances to		
	Banks	Customers	Total
of which to:	EUR in thousands	EUR in thousands	EUR in thousands
Shareholder	0	0	**0**
Affiliated companies	1,237,464	157,611	**1,395,075**
Companies in which KfW IPEX-Bank holds a stake	0	51,629	**51,629**
Subordinated assets	0	98,614	**98,614**

Bonds and other fixed-income securities

Listed/marketable securities

	31 Dec. 2014	31 Dec. 2013
	EUR in thousands	EUR in thousands
Listed securities	1,613,526	1,893,320
Unlisted securities	0	0
Marketable securities	**1,613,526**	**1,893,320**

The “Bonds and other fixed-income securities” item totalling EUR 1,614 million (previous year: EUR 1,893 million) contains securities of KfW as an affiliated company amounting to EUR 1,344 million (previous year: EUR 1,667 million). The portfolio includes securities amounting to EUR 295 million (previous year: EUR 426 million) which fall due during the year following the balance sheet date.

Shares and other non-fixed-income securities

	31 Dec. 2014	31 Dec. 2013
	EUR in thousands	EUR in thousands
Listed securities	10,739	9,185
Unlisted securities	0	0
Marketable securities	10,739	9,185

The item "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 and Financial Services Institutions and, since 2011, listed. It is valued strictly at the lower of cost or market principle.

Fixed assets

	Change	Residual book value	Residual book value
	2014[1]	31 Dec. 2014	31 Dec. 2013
	EUR in thousands	EUR in thousands	EUR in thousands
Shares and other non-fixed-income securities	1,554	10,739	9,185
of which: included in valuation units within the meaning of Section 254 of the German Commercial Code (HGB)	*1,554*	*10,739*	*9,185*
Investments	–15,199	102,546	117,745
Bonds and other fixed-income securities	–279,794	1,613,526	1,893,320
of which: included in valuation units within the meaning of Section 254 of the German Commercial Code (HGB)	*–35,767*	*73,241*	*109,008*
Total	**–293,439**	**1,726,811**	**2,020,250**

[1] Including exchange rate changes

	Purchase/ produc-tion costs	Additions	Disposals	Transfers	Write-ups	Depreciation/ impairment		Residual book value	Residual book value
						Total	2014	31 Dec. 2014	31 Dec. 2013
	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	410	301	329	0	0	72	74	310	82
Property, plant and equipment[2]	676	102	79	0	0	283	114	416	428
Sum	**1,086**	**403**	**408**	**0**	**0**	**355**	**188**	**726**	**510**
Total								**1,727,537**	**2,020,760**

[2] Of which: as at 31 Dec. 2014: – total value of plant and equipment: EUR 416 thousand
– total value of land and buildings used for the bank's activities: EUR 0 thousand

The marketable securities amounting to EUR 9 million contained under Investments are not listed.

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, it has been possible to avoid write-downs of altogether EUR 15 million on these securities, since a recovery is expected before their maturity date. The book value of these securities that are reported above their fair value totals EUR 166 million. The corresponding fair value of these securities is EUR 151 million.

Disclosures on shareholdings

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

	Company name and headquarters	Capital share	Equity[1)]	Net income for the year[2)]
		in %	EUR in thousands	EUR in thousands
1.	MD Capital Beteiligungsgesellschaft mbH (in liquidation) Düsseldorf	50.0	1,236	12
			USD in thousands	USD in thousands
2.	Bussard Air Leasing Ltd., Dublin, Ireland[1)]	100.0	n/a	n/a
3.	Canas Leasing Ltd., Dublin, Ireland	50.0	0	0
4.	Sperber Rail Holdings Inc., Wilmington, USA	100.0	1,692	–240
5.	8F Leasing S. A., Luxembourg	22.2	11,496	146

[1)] Founded in 2014, financial statements not yet available.
[2)] Figures available as at 31 Dec. 2013 only.

Assets held in trust

	31 Dec. 2014	31 Dec. 2013	Change
	EUR in thousands	EUR in thousands	EUR in thousands
Loans and advances to banks	99,400	97,079	2,321
Loans and advances to customers	61,467	59,621	1,846
Total	**160,867**	**156,700**	**4,167**

In addition to assets held in trust of EUR 161 million that are recognised in the balance sheet and are owned by the bank in civil-law terms, KfW IPEX-Bank also administers the E&P trust business totalling EUR 21.9 billion (previous year: EUR 21.0 billion) on behalf of KfW as an indirect agent.

Prepaid expenses and deferred charges

Prepaid expenses and deferred charges of EUR 35 million (previous year: EUR 22 million) include in particular upfront interest payments from swaps amounting to EUR 33 million (previous year: EUR 18 million) and accrued discounts from promissory note loans from KfW of EUR 2 million (previous year: EUR 3 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	25,911	4,292,745	2,890,640	9,350,048	4,390,053	79,189	21,028,586
(as at 31 Dec. 2013)	*51,395*	*3,750,086*	*3,164,878*	*8,200,473*	*3,174,248*	*83,380*	*18,424,460*
Liabilities to customers – other liabilities	15,146	262,740	0	22,523	56,127	3,785	360,321
(as at 31 Dec. 2013)	*6,371*	*256,743*	*100,000*	*1,419*	*52,885*	*3,043*	*420,461*
Total	**41,057**	**4,555,485**	**2,890,640**	**9,372,571**	**4,446,180**	**82,974**	**21,388,907**
(as at 31 Dec. 2013)	*57,766*	*4,006,829*	*3,264,878*	*8,201,892*	*3,227,133*	*86,423*	*18,844,921*
in %	**0**	**21**	**14**	**44**	**21**	**0**	**100**

	Liabilities to		
	Banks	Customers	Total
of which to:	EUR in thousands	EUR in thousands	EUR in thousands
Shareholder	0	0	0
Affiliated companies	20,845,273	0	20,845,273
Companies in which KfW IPEX-Bank holds a stake	0	483	483

Special information for Pfandbrief banks[1)]

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

		31 Dec. 2014	31 Dec. 2013
		EUR in millions	EUR in millions
Public Pfandbriefe in issue		**752**	**–**
Cover assets			
Loans and advances to customers		929	–
a) mortgage loans		*0*	–
b) municipal loans		*580*	–
c) other loans and advances		*349*	–
Bonds and other fixed-income securities		50	–
Cover assets total		**979**	**–**
Over-collateralisation	**absolute value**	**227**	**–**
	in %	**30**	**–**

[1)] Since KfW IPEX-Bank only began operating as a Pfandbrief bank in the 2014 financial year, there are no prior-year figures.

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

Information on total liabilities and maturity structure

Section 28 (1) Nos 1 and 3 of the German Pfandbrief Act Relation between Pfandbriefe in issue and cover pool		Nominal value		Net present value		Risk-adjusted net present value including forex stress[1]	
		31 Dec. 2014	31 Dec. 2013	31 Dec. 2014	31 Dec. 2013	31 Dec. 2014	31 Dec. 2013
		EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions
Total value of Pfandbriefe in issue including derivatives		752	–	759	–	669	–
of which: derivatives		*0*	–	*0*	–	*0*	–
Total value of cover pools including derivatives		979	–	1,057	–	905	–
of which: derivatives		*0*	–	*0*	–	*0*	–
Over-collateralisation	**absolute value**	**227**	–	**298**	–	**236**	–
	in %	**30**	–	**39**	–	**35**	–

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

Section 28 (1) No 2 of the German Pfandbrief Act Maturity structure and fixed-interest period	Pfandbriefe in circulation		Cover pool	
	31 Dec. 2014	31 Dec. 2013	31 Dec. 2014	31 Dec. 2013
	EUR in millions	EUR in millions	EUR in millions	EUR in millions
up to six months	0	–	42	–
more than 6 to 12 months	0	–	43	–
more than 12 to 18 months	0	–	43	–
more than 18 months to 2 years	0	–	43	–
more than 2 to 3 years	82	–	91	–
more than 3 to 4 years	165	–	142	–
more than 4 to 5 years	82	–	91	–
more than 5 to 10 years	422	–	392	–
more than 10 years	0	–	93	–

Section 28 (1) No 9 of the German Pfandbrief Act	31 Dec. 2014	31 Dec. 2013
	in %	in %
Proportion of fixed-rate		
– cover pool	*38*	–
– Pfandbriefe	*0*	–

Section 28 (1) No 10 of the German Pfandbrief Act (as per Section 6 of the Pfandbrief Net Present Value Regulation)	Interest rate stress present value of cover pools		Interest rate stress present value of Pfandbriefe in circulation		Exchange rate	
	31 Dec. 2014	31 Dec. 2013	31 Dec. 2014	31 Dec. 2013	31 Dec. 2014	31 Dec. 2013
	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions
EUR	301	–	179	–	1.0000	–
USD	880	–	714	–	1.2141	–

Section 28 (1) No 10 of the German Pfandbrief Act (as per Section 6 of the Pfandbrief Net Present Value Regulation)	Net present value in foreign currency		Net present value in EUR	
	31 Dec. 2014	31 Dec. 2013	31 Dec. 2014	31 Dec. 2013
	EUR in millions	EUR in millions	EUR in millions	EUR in millions
EUR	122	–	122	–
USD	166	–	137	–

Structure of cover assets

	Section 28 (1) Nos 4 and 5 of the German Pfandbrief Act Total value of claims registered				Section 28 (1) No 8 of the German Pfandbrief Act Total value of claims exceeding thresholds	
	Equalisation claims within the meaning of Section 20 (2) No 1 of the Pfandbrief Act		Claims within the meaning of Section 20 (2) No 2 of the Pfandbrief Act			
	31 Dec. 2014	31 Dec. 2013	31 Dec. 2014	31 Dec. 2013	31 Dec. 2014	31 Dec. 2013
	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions
Total	**0**	**–**	**0**	**–**	**0**	**–**
of which: covered bonds[1]			0	–		

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

	Section 28 (3) No 1 of the German Pfandbrief Act PfandGB Total value of claims used by country and debtor class			
	Federal Republic of Germany		Total	
	31 Dec. 2014	31 Dec. 2013	31 Dec. 2014	31 Dec. 2013
	EUR in millions	EUR in millions	EUR in millions	EUR in millions
Government	846	–	846	–
Regional authorities	0	–	0	–
Local authorities	40	–	40	–
Other debtors	93	–	93	–
Total	**979**	**–**	**979**	**–**

Outstanding claims

	Section 28 (3) No 2 of the German Pfandbrief Act (PfandGB) Total value of claims outstanding for at least 90 days		Section 28 (3) No 2 of the German Pfandbrief Act (PfandGB) Total value of claims where the arrear is at least 5 % of the claim	
	31 Dec. 2014	31 Dec. 2013	31 Dec. 2014	31 Dec. 2013
	EUR in millions	EUR in millions	EUR in millions	EUR in millions
Government	0	–	0	–
Regional authorities	0	–	0	–
Local authorities	0	–	0	–
Other debtors	0	–	0	–
Total	**0**	**–**	**0**	**–**

Outstanding claims

	31 Dec. 2014	31 Dec. 2013	Change
	EUR in thousands	EUR in thousands	EUR in thousands
Liabilities to banks	5,012	5,899	–887
Liabilities to customers	155,855	150,801	5,054
Total	**160,867**	**156,700**	**4,167**

Other liabilities

Other liabilities of EUR 32 million (previous year: EUR 3 million) mainly consist of the balancing item for the foreign currency translation of derivative hedging instruments of EUR 24 million, and liabilities to the financial authorities of EUR 4 million (previous year: EUR 2 million).

Deferred income

Deferred income totalling EUR 38 million (previous year: EUR 32 million) mainly comprises discounts from upfront interest payments from swaps that have been received but do not yet impact income of EUR 31 million (previous year: EUR 16 million), and discounts from receivables purchases adding up to EUR 7 million (previous year: EUR 16 million).

Provisions

As well as provisions for pensions and similar commitments totalling EUR 99 million (previous year: EUR 82 million), and tax provisions amounting to EUR 54 million (previous year: EUR 24 million), other provisions of EUR 64 million (previous year: EUR 95 million) were recognised as at 31 December 2014. These other provisions relate in particular to provisions for credit risks amounting to EUR 23 million, liabilities to staff of EUR 19 million, fees for planned syndications of EUR 8 million, and archiving costs of EUR 6 million.

Subordinated liabilities

KfW has granted KfW IPEX-Bank subordinated loans amounting to USD 1,000 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.	31 Dec. 2017
2.	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

Interest payments are made quarterly at different interest payment dates.
KfW IPEX-Bank is not obliged to repay the subordinated loans ahead of schedule.

Interest expense for subordinated loans in 2014 amounted to the equivalent of EUR 8 million (previous year: EUR 9 million).

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

Other required disclosures on liabilities and equity

Contingent liabilities

Sector department	31 Dec. 2014 EUR in millions	31 Dec. 2013 EUR in millions	Change EUR in millions
Power, Renewables and Water	571	801	–230
Aviation and Rail	495	417	78
Industries and Services	381	242	139
Maritime Industries	232	240	–8
Transport and Social Infrastructure (PPP)	179	147	32
Financial Institutions, Trade & Commodity Finance	114	170	–56
Basic Industries	93	140	–47
Leveraged and Acquisition Finance, Mezzanine, Equity	14	13	1
Total	**2,079**	**2,170**	**–91**

The new guarantees given in financial year 2014 amounted to EUR 283 million. In contrast, a total of EUR 374 million was redeemed.

Irrevocable loan commitments

Sector department	31 Dec. 2014 EUR in millions	31 Dec. 2013 EUR in millions	Change EUR in millions
Basic Industries	1,652	1,263	389
Maritime Industries	1,491	1,015	476
Power, Renewables and Water	1,346	1,320	26
Transport and Social Infrastructure (PPP)	713	743	–30
Industries and Services	711	798	–87
Aviation and Rail	679	753	–74
Financial Institutions, Trade & Commodity Finance	450	463	–13
Leveraged and Acquisition Finance, Mezzanine, Equity	4	13	–9
Total	**7,046**	**6,368**	**678**

Total irrevocable loan commitments as at 31 December 2014 stood at EUR 7,046 million. Risks from these transactions are taken into account by creating portfolio loan loss provisions and specific loan loss provisions.

Required disclosures on the income statement

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

In financial year 2014, income from Frankfurt am Main and London was as follows:

	31 Dec. 2014			31 Dec. 2013			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	600,912	22,874	623,786	599,976	23,080	623,056	936	–206	730
Current income from									
a) Shares and other non-fixed-income securities	918	0	918	918	0	918	0	0	0
b) Investments	99	0	99	12,465	0	12,465	–12,366	0	–12,366
c) Shares in affiliated companies	0	0	0	0	0	0	0	0	0
Commission income	185,996	247	186,243	150,627	958	151,585	35,369	–711	34,657
Other operating income	39,445	9,800	49,245	55,487	7,118	62,605	–16,042	2,682	–13,360
Total	**827,370**	**32,921**	**860,291**	**819,473**	**31,156**	**850,629**	**7,897**	**1,765**	**9,661**

Interest expense and interest income

Valuation of provisions led to interest expense from compounding of EUR 4,016 thousand and interest income from discounting of EUR 12 thousand.

Other operating expense

Other operating expense amounted to EUR 15 million (previous year: EUR 64 million). It mainly includes realised and unrealised exchange losses from foreign currency valuation totalling EUR 8 million and the expense for the banking levy of EUR 4 million.

Other operating income

Other operating income of EUR 49 million (previous year: EUR 63 million) chiefly relates to realised and unrealised exchange gains from foreign currency valuation totalling EUR 45 million, and income for services provided to group companies amounting to EUR 3 million.

Taxes on income

Taxes on income totalling EUR 61 million (previous year: EUR 21 million) are made up of corporate income tax and capital gains tax plus the solidarity surcharge totalling EUR 33 million, and trade tax of EUR 28 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 average rates of exchange applicable as at 31 December 2014.

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

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

As at 31 December 2014, total assets denominated in foreign currency converted in accordance with Section 340h in conjunction with Section 256a of the German Commercial Code amounted to EUR 14.7 billion (previous year: EUR 11.9 billion), EUR 13.5 billion of which related to loans and advanced to customers.

Total liabilities denominated in foreign currency amounted to EUR 14.7 billion (previous year: EUR 12.0 billion), of which the majority (EUR 12.5 billion) related to liabilities to banks.

Other financial liabilities

Total call obligations arising in connection with equity finance transactions amounted to EUR 13 million (previous year: EUR 34 million).

In individual cases, KfW IPEX-Bank employees perform specific functions on governing bodies of companies in which KfW IPEX-Bank holds investments or with which it maintains another, relevant creditor relationship. Risks 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

Listed below are the volumes of underlying transactions in securities held as fixed assets which are hedged in valuation units against interest risks as at the balance sheet date. There were no additions to securities held as liquidity reserves.

	Nominal value		Carrying amount		Fair value	
	31 Dec. 2014	31 Dec. 2013	31 Dec. 2014	31 Dec. 2013	31 Dec. 2014	31 Dec. 2013
	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	70	105	73	109	76	111
Shares and other non-fixed-income securities	11	11	11	9	11	10
Total	**81**	**116**	**84**	**118**	**87**	**121**

KfW IPEX-Bank only uses derivatives 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 portions of the valuation units created are accounted for using the net hedge presentation method.

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 identification 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 the 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 bank's intention to hold the hedges until maturity, it can be assumed that, in the future, too, the effects will also remain virtually entirely offsetting with respect to the hedged risk until the expected maturities of the valuation units.

In connection with hedging interest rate risks in the banking book, the derivative financial instruments used for this purpose and the interest-bearing underlying transactions form part of asset/liability management, along with valuation units in accordance with Section 254 of the Commercial Code. KfW IPEX-Bank manages the market value of all interest-bearing transactions in the banking book as one unit. As at 31 December 2014 there was a positive present value.

Derivatives reporting

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

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

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

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

In the following table, the calculation of market values for all contract types is based on the market valuation method. It discloses the positive and negative fair values of derivative positions as at 31 December 2014.

Derivative transactions – volumes

	Nominal values		Fair values positive	Fair values negative
	31 Dec. 2014	31 Dec. 2013	31 Dec. 2014	31 Dec. 2014
	EUR in millions	EUR in millions	EUR in millions	EUR in millions
Contracts with interest rate risks				
Interest rate swaps	14,995	12,969	772	959
Caps/floors	833	0	0	0
Total	**15,828**	**12,969**	**772**	**959**
Contracts with foreign exchange risks				
Cross-currency swaps	1,092	554	11	52
FX swaps	51	1	0	1
FX forward transactions	125	22	1	1
Total	**1,268**	**577**	**12**	**54**
Share and other price risks	**0**	**0**	**0**	**0**
Credit derivatives	**0**	**0**	**0**	**0**
Total	**17,096**	**13,546**	**784**	**1,013**

Derivative transactions – maturities by nominal volume

	Interest rate risks		Foreign exchange risks	
	31 Dec. 2014	31 Dec. 2013	31 Dec. 2014	31 Dec. 2013
	EUR in millions	EUR in millions	EUR in millions	EUR in millions
Maturity				
up to 3 months	356	321	186	107
more than 3 months to 1 year	1,557	1,356	119	29
more than 1 to 5 years	6,023	4,804	834	415
more than 5 years	7,892	6,488	129	26
Total	**15,828**	**12,969**	**1,268**	**577**

Derivative transactions – counterparties

	Nominal values		Fair values positive	Fair values negative
	31 Dec. 2014	31 Dec. 2013	31 Dec. 2014	31 Dec. 2014
	EUR in millions	EUR in millions	EUR in millions	EUR in millions
Counterparties				
OECD banks	10,797	8,622	17	1,006
Non-OECD banks	0	0	0	0
Other counterparties	6,274	4,899	762	7
Public sector	25	25	5	0
Total	**17,096**	**13,546**	**784**	**1,013**

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 12,617 million as at 31 December 2014 (previous year: EUR 10,870 million). In addition, financial guarantees amounting to EUR 115 million (previous year: EUR 110 million) were administered.

	31 Dec. 2014	31 Dec. 2013	Change
	EUR in millions	EUR in millions	EUR in millions
Market business	3,611	3,555	56
Trust business	6,964	5,977	987
Other[1)]	2,042	1,338	704
Total	**12,617**	**10,870**	**1,747**

[1)] Including refinancing for CIRR ship financings by third-party banks totalling EUR 2,031 million (previous year: EUR 1,335 million)

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

Personnel

The average number of staff, not including trainees and the Management Board (but including temporary staff) is calculated from the end-of-quarter figures during financial year 2014.

	2014	2013	Change
Female employees	300	290	10
Male employees	335	321	14
Staff not covered by collective agreements	517	489	28
Staff covered by collective agreements	118	122	–4
Total	**635**	**611**	**24**

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

Total remuneration paid to the members of the Management Board in financial year 2014 was EUR 1,690 thousand. Details of the remuneration paid to the members of the Management Board are given in the following table.

Annual remuneration[1)]

	Salary	Variable remuneration	Other remuneration[2)]	Total
	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands
Klaus R. Michalak[3)] (CEO)	252	–	17	269
Christiane Laibach	400	71	10	481
Christian Murach	378	70	20	468
Markus Scheer	378	70	24	472
Total	**1,407**	**210**	**72**	**1,690**

1) Differences may occur in the table due to rounding.
2) Other remuneration comprises the use of company cars, insurance premiums and taxes incurred on such remuneration.
3) Appointed to the Management Board of KfW IPEX-Bank on 1 May 2014.

Total remuneration paid to the members of the Board of Supervisory Directors was EUR 145 thousand (net). Attendance fees amounting to EUR 74 thousand (net) were also paid. Remuneration is structured as follows: Annual remuneration amounts to EUR 22 thousand (net) for membership of the Board of Supervisory Directors and EUR 29 thousand (net) for the chairmanship. In addition, attendance fees of EUR 1 thousand are paid for meetings of the 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 to a reasonable extent. There were no payments made to former members of the Board of Supervisory Directors, or to their dependents. Remuneration to members of the Executive Board of KfW, who on the basis of Section 9 (1) of the Articles of Association of KfW IPEX-Bank are members of the Board of Supervisory Directors, was suspended with effect from 1 July 2011 until further notice. State Secretary Machnig also waived his remuneration and attendance fees.

As at 31 December 2014, provisions for pensions for former members of the Management Board and their dependents stood at a total of EUR 6,601 thousand.

As at 31 December 2014, there were no loans outstanding to members of the Management Board or the Board of Supervisory Directors.

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)
up to 8 January 2014

Johannes Geismann
(State Secretary, Federal Ministry of Finance)
from 17 February 2014

Ulrich Goretzki
(KfW IPEX-Bank employee representative)

Anne Ruth Herkes
(State Secretary, Federal Ministry for Economic Affairs and Energy)
up to 2 January 2014

Alexander Jacobs
(KfW IPEX-Bank employee representative)

Stefan Kapferer
(State Secretary, Federal Ministry for Economic Affairs and Energy)
17 January 2014 to 30 September 2014

Dagmar P. Kollmann
(Businesswoman and Supervisory Board member)

Bernd Loewen
(Member of the Executive Board of KfW)

Matthias Machnig
(State Secretary, Federal Ministry for Economic Affairs and Energy)
from 23 October 2014

Dr Nadja Marschhausen
(KfW IPEX-Bank employee representative)

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

Management Board

Klaus R. Michalak
Neu-Anspach
(CEO)

Christiane Laibach
Frankfurt am Main
Left the bank on 15 February 2015

Christian K. Murach
Sulzbach (Taunus)

Markus Scheer
Hofheim am Taunus

Frankfurt am Main, 17 February 2015

Klaus R. Michalak **Christian K. Murach**

Markus Scheer

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 2014. 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, 03 March 2015

KPMG AG
Wirtschaftsprüfungsgesellschaft

Mock
Certified accountant

Spickermann
Certified accountant

Country-by-Country Reporting

as per Section 26a of the German Banking Act as of 31 December 2014

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

Such reporting involves disclosure of the following necessary information:
1. Company name, nature of activities and geographical location of branches
2. Turnover
3. Number of employees on a full-time equivalent basis
4. Profit or loss before tax
5. Tax on profit or loss
6. Public subsidies received

Turnover has been defined as operating result before risk provisions and administrative expenses.
The disclosures were made on the basis of the individual financial statements of KfW IPEX-Bank GmbH prepared in accordance with the German Commercial Code (*Handelsgesetzbuch – HGB*) as at 31 December 2014.[5)]

Country	Company name	Nature of activities	Geographical location of branches	Turnover[2)]	Number of employees	Profit before tax[2)]	Tax on profit[2)]	Public subsidies received
				EUR in millions	in FTE[1)]	EUR in millions	EUR in millions	EUR in millions
EU countries								
Germany	KfW IPEX-Bank GmbH	Export and project finance	Frankfurt am Main	505.11	544	185.93	57.48	0.00
UK	KfW IPEX-Bank GmbH	Export and project finance	London	19.93	19	14.34	3.29	0.00

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

Return on assets

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

As at 31 December 2014, the return on assets within the meaning of Section 26a (1), 4th sentence of the Act, is 0.0053 or 0.53 %.

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

Corporate Governance Report

As a member of the KfW Group, KfW IPEX-Bank GmbH has committed itself to acting responsibly and transparently in an accountable manner. Both the Management Board and the Board of Supervisory Directors of KfW IPEX-Bank GmbH recognise the principles of the German Federal Government's Public Corporate Governance Code (PCGC) as applicable to 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 instances of non-compliance have been disclosed annually and explained.

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

To implement amendments to the German Banking Act (*Kreditwesengesetz – KWG*) in effect from 1 January 2014, KfW IPEX-Bank modified its Articles of Association, Rules of Procedure for the Members of the Management Board and Rules of Procedure for the Board of Supervisory Directors and its Committees with effect from 3 April 2014, and again modified its Rules of Procedure for the Board of Supervisory Directors and its Committees, particularly with regard to the establishment of a Remuneration Control Committee with effect from 27 November 2014. As regards the legal position prior to those dates, the remarks in the 2013 Corporate Governance Report apply accordingly.

Declaration of compliance

The Management Board and the Board of Supervisory Directors of KfW IPEX-Bank hereby declare: "Since the last Declaration of Compliance submitted on 21 March 2014, the recommendations of the Federal Government's Public Corporate Governance Code, as adopted by the Federal Government on 1 July 2009, have been and will continue to be fulfilled, with the exception of the following recommendations".

D&O insurance deductible

KfW has concluded D&O insurance contracts in the form of a group insurance policy which also provides insurance cover for members of the Management Board and the Board of Supervisory Directors of KfW IPEX-Bank. These contracts contain only an option to introduce a deductible, contrary to Clause 3.3.2 of the PCGC. The decision to exercise this option will be taken together with the Chairman and Deputy Chairman of the Board of Supervisory Directors of KfW.

Delegation to committees

The committees of the Board of Supervisory Directors of KfW IPEX-Bank essentially perform only preparatory work for the Board of Supervisory Directors. The Loan Committee takes final loan decisions for financings that exceed certain predefined limits; this is contrary to Clause 5.1.8 of the PCGC. This procedure is necessary for both practical and efficiency reasons. The delegation of loan decisions to a loan committee is standard practice at banks. It serves to accelerate the decision-making process and to consolidate technical expertise within the committee. Since the modified Rules of Procedure for the Board of Supervisory Directors and its Committees came into force on 27 November 2014, the Chairman of the Executive Committee – and not the Board of Supervisory Directors as per Clause 4.4.4 of the PCGC – decides on sideline activities exercised by the members of the Management Board.

Loans to members of bodies

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

Allocation of responsibilities

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

Cooperation between the Management Board and the Board of Supervisory Directors

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

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

Management Board

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

Since the appointment of Mr Klaus R. Michalak as member of the Management Board and CEO (1 May 2014), the members of the Management Board have been responsible for the following areas:

- Mr Klaus R. Michalak (from 1 May 2014): CEO; Products and Corporate Affairs
- Ms Christiane Laibach: Risk and Finance
- Mr Christian K. Murach: Markets II/Transport Sectors and Treasury
- Mr Markus Scheer: Markets I/Industry Sectors

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

Board of Supervisory Directors

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

In accordance with KfW IPEX-Bank's current Articles of Association, the Board of Supervisory Directors has nine members: two representatives from KfW, two representatives from the Federal Government – one each from the Federal Ministry of Finance and the Federal Ministry for Economic Affairs and Energy – and two representatives from industry as well as three employee representatives. In accordance with the Rules of Procedure for the Board of Supervisory Directors and its Committees, the latter is to be chaired by a representative of the Executive Board of KfW. As the current Chairman is Dr Norbert Kloppenburg, this requirement is met. There were two women on the Board of Supervisory Directors in the reporting year.

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

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

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

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

The **Loan Committee** is responsible for loan-related issues.

The **Audit Committee** is responsible for matters regarding accounting and risk management, as well as 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 annual financial statements in preparation for meetings of the full Board of Supervisory Directors.

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

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

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

Shareholder

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

Supervision

Since its spin-off, KfW IPEX-Bank has been fully subject to the provisions of the German Banking Act (*Kreditwesengesetz – KWG*). With effect from 1 January 2008, BaFin granted the bank a licence to act as an IRBA (Internal Ratings-Based Approach) bank for rating corporates, banks, sovereigns and specialist 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 (legal supervision: Federal Ministry of Finance), there is a financial holding group below KfW IPEX-Beteiligungsholding GmbH that is important from a bank supervision standpoint. This holding group consists of KfW IPEX-Bank (the parent company) together with MD Capital Beteiligungsgesellschaft mbH as a subsidiary company. The previous investment in Railpool GmbH & Co. KG was sold on 9 May 2014.

Protection of deposits

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

Transparency

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

Risk management

Risk management and risk controlling are key responsibilities within the integrated risk/return management at KfW IPEX-Bank. Using the risk strategy, the Management Board defines the framework for the bank's business activities regarding risk tolerance and the capacity to bear risk. This ensures that KfW IPEX-Bank can fulfil its particular responsibilities with an appropriate risk profile in a sustainable, long-term manner. The bank's overall risk situation is analysed comprehensively in monthly risk reports to the Management Board. The Board of Supervisory Directors is regularly – at least once per quarter – given detailed information on the bank's risk situation.

Compliance

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

Accounting and annual audit

On 21 March 2014, the shareholder of KfW IPEX-Bank appointed KPMG AG Wirtschaftsprüfungsgesellschaft as auditor of the financial statements for the 2014 financial year. The Board of Supervisory Directors then issued the audit assignment to KPMG on 21 July 2014 and in September determined the audit priorities together with the auditor. The bank and the auditor agreed that the Chairman of the Audit Committee would be informed without delay of any potential grounds for bias or disqualification arising during the audit that were not immediately rectified. It was furthermore agreed that the auditor would immediately inform the Audit Committee Chairman about specific findings or potential misstatements in the Declaration of Compliance with the PCGC. A declaration of auditor independence was obtained.

Efficiency review of the Board of Supervisory Directors

The Board of Supervisory Directors has always regularly reviewed the efficiency of its operations. The efficiency review was previously carried out every two years, the last one having been performed in 2013. Since Section 25d (11) of the German Banking Act entered into force on 1 January 2014, the Board of Supervisory Directors is obliged to evaluate itself and the Management Board on an annual basis. It performed its latest evaluation in the fourth quarter of 2014 on the basis of structured questionnaires. The overall outcome of the review was a "good" rating (with an average rating of 1.6). The Board of Supervisory Directors' self-evaluation does not indicate an urgent or acute need for any measures to be taken. The evaluation of the Management Board began at the end of 2014 and will be completed in the first quarter of 2015.

Remuneration report

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

Remuneration for the Management Board

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

Components of remuneration

The remuneration of the Management Board consists of a fixed, annual base salary and a variable, performance-based bonus. All contracts are in accordance with Section 25a (5) of the German Banking Act in conjunction with the German Remuneration Regulation for Institutions (*Institutsvergütungsverordnung*). However the new requirements of the Regulation valid from 1 January 2014 will only be implemented from 1 January 2015. The establishment of the variable, individual performance-based bonus component is based on an agreement regarding targets that is concluded with the Management Board by the shareholder – after consultation with the Board of Supervisory Directors – at the beginning of each year. This agreement includes financial, quantitative and qualitative targets for the entire bank, and individual personal targets for each member of the Management Board. 50% of the personal performance-based bonus, calculated according to achievement of targets, is paid out immediately, up to and including for financial year 2014. 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 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.

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

	2014 EUR in thousands	2013 EUR in thousands	Change EUR in thousands
Members of the Management Board	1,690	1,925	–235
Members of the Board of Supervisory Directors	219	235	–16
Total	**1,909**	**2,160**	**–251**

Annual remuneration to members of the Management Board and additions to pension provisions during 2014 and 2013 in EUR thousands[1)]

	Salary		Variable remuneration		Other remuneration[2)]		Total		Bonus account[3)]		Additions to pensions provisions	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
		EUR in thousands		EUR in thousands		EUR in thousands		EUR in thousands		EUR in thousands		EUR in thousands
Klaus R. Michalak[4)] (CEO)	252	–	–	–	17	–	269	–	78	–	48	–
Harald D. Zenke[5)] (Speaker of the Management Board)	–	378	–	156	–	40	–	574	–	–	–	–
Christiane Laibach	400	430	71	–	10	14	481	444	146	125	292	87
Christian K. Murach	378	393	70	–	20	20	468	413	145	125	337	128
Markus Scheer[6)]	378	393	70	–	24	100	472	494	145	125	310	148
Total	**1,407**	**1,594**	**210**	**156**	**72**	**175**	**1,690**	**1,925**	**513**	**375**	**987**	**362**

1) Rounding differences may occur in the table for computational reasons.
2) This remuneration is presented in analogy with the figures given in the Notes in accordance with Section 285 (9) of the German Commercial Code excluding employer benefits according to the German Social Insurance Act (*Sozialversicherungsgesetz*). These totalled EUR 44 thousand in 2014 (previous year: EUR 38 thousand).
3) As well as individual performance-based bonuses carried forward from previous years, the bonus account also includes the provision for bonuses for financial year 2014.
4) Appointed as CEO of KfW IPEX-Bank GmbH as of 1 May 2014
5) Left KfW IPEX-Bank GmbH on 30 April 2013
6) Other remuneration 2013 includes a service anniversary bonus.

The above overview shows the total remuneration paid to individual members of the Management Board, divided into fixed and variable remuneration components and other remuneration, as well as additions to pension provisions.

Contractual fringe benefits

Other remuneration primarily includes contractual fringe benefits. The members of the Management Board of KfW IPEX-Bank are entitled to a company car for both business and private use. Costs incurred as a result of private 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. They are covered by two insurance policies for the risks associated with their activities on the bank's management bodies. The first provides liability insurance for monetary damages (D&O insurance) and the second offers supplemental legal protection for monetary damages. Both policies are group insurance policies. A deductible has not been agreed at present. As part of their activities, the members of the Management Board of KfW IPEX-Bank are also included in special criminal law protection insurance for employees that was established as a group insurance policy.

Other remuneration does not include remuneration received for the exercise of corporate mandates held and sideline activities performed by a member of the Management Board outside the Group with the approval of the competent bodies of KfW IPEX-Bank. The entire amount of such remuneration is considered as personal income of members of the Management Board. In 2014, the members of the Management Board did not receive remuneration for exercising group mandates.

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

In addition, contractual fringe benefits include the costs of security measures for residential property occupied by members of the Management Board; these costs are not reported under Other remuneration but instead under Non-personnel expense. Contractual fringe benefits also comprise employer benefits as per the German Code of Social Law (*Sozialgesetzbuch – SGB*); these are not reported under Other remuneration.

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

There were no outstanding loans to members of the Management Board 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, 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. Board members whose contract for serving on the

Management Board was signed before 2014 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 principles for the appointment of executive board members at German federal credit institutions. The PCGC is taken into account when contracts of employment are drawn up for members of the Management Board.

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

In principle the maximum retirement pension entitlement equals 70 % of the pensionable remuneration, which is derived on an actuarial basis from the most recent gross base salary. The retirement pension entitlement is 70 % of the maximum pension entitlement for initial appointments and increases by 3 % with every year of service completed over a period of ten years until the maximum pension entitlement is reached.

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

No retirement pension payments were made to former members of the Management Board during the 2014 financial year.

Provisions for pension obligations for former members of the Management Board and their dependents totalled EUR 6,601 thousand at the end of the 2014 financial year (previous year: EUR 5,991 thousand).

Remuneration for the Board of Supervisory Directors

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

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

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

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

Details regarding the remuneration of the Board of Supervisory Directors during the 2014 and 2013 financial years are listed in the following tables; travel expenses and other miscellaneous expenses were reimbursed based upon receipts and are not included in this table. The indicated amounts are net values and were all paid.

Remuneration of members of the Board of Supervisory Directors for 2014 in EUR

Member	Dates of membership 2014	Annual remuneration	Attendance fees[1]	Total
Dr Kloppenburg	1 Jan. – 31 Dec.	–	–	–
Mr Loewen	1 Jan. – 31 Dec.	–	–	–
State Secretary Geismann[2]	17 Feb. – 31 Dec.	20,167	12,000	32,167
State Secretary Kapferer[2]	17 Feb. – 30 Sept.	14,667	6,000	20,667
State Secretary Machnig[3]	23 Oct. – 31 Dec.	–	–	–
Dr Rupp	1 Jan. – 31 Dec.	22,000	13,000	35,000
Ms Kollmann	1 Jan. – 31 Dec.	22,000	12,000	34,000
Dr Marschhausen	1 Jan. – 31 Dec.	22,000	13,000	35,000
Mr Goretzki	1 Jan. – 31 Dec.	22,000	10,000	32,000
Mr Jacobs	1 Jan. – 31 Dec.	22,000	8,000	30,000
Total		**144,834**	**74,000**	**218,834**

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

Remuneration of members of the Board of Supervisory Directors for 2013 in EUR

Member	Dates of membership 2013	Annual remuneration	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	13,000	35,000
State Secretary Herkes[2]	1 Jan. – 31 Dec.	22,000	10,000	32,000
Dr Rupp	1 Jan. – 31 Dec.	22,000	13,000	35,000
Ms Kollmann	1 Jan. – 31 Dec.	22,000	14,000	36,000
Dr Marschhausen	1 Jan. – 31 Dec.	22,000	14,000	36,000
Mr Goretzki	1 Jan. – 31 Dec.	22,000	9,000	31,000
Mr Jacobs	1 Jan. – 31 Dec.	22,000	8,000	30,000
Total		**154,000**	**81,000**	**235,000**

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

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

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

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

The members of the Board of Supervisory Directors are covered by two insurance policies for the risks associated with their activities on the Board of Supervisory Directors. The first provides liability insurance for monetary damages (D&O insurance) and the second offers supplemental legal protection for monetary damages. Both policies are group insurance policies of KfW. A deductible has not been agreed at present. As part of their activities, the members of the Board of Supervisory Directors of KfW IPEX-Bank are also included in special criminal law protection insurance for employees that was established by KfW as a group insurance policy.

Frankfurt, 20 March 2015

Management Board **Board of Supervisory Directors**

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Phone +49 69 7431-3300, Fax +49 69 7431-2944
info@kfw-ipex-bank.de, www.kfw-ipex-bank.de

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MIX
Paper from responsible sources

KfW IPEX-Bank GmbH
Palmengartenstrasse 5–9
60325 Frankfurt am Main
Germany
Phone +49 69 7431-3300
Fax + 49 69 7431-2944
info@kfw-ipex-bank.de
www.kfw-ipex-bank.de

600 000 3452

KFW IPEX-Bank