Annual Report 2013

KfW IPEX-Bank

2013

Key figures

Volume of lending of the Export and Project Finance business sector

Volume of lending of the business sector[1] by sector department	2013
	EUR in billions
Maritime Industries	14.3
Power, Renewables and Water	10.8
Aviation and Rail	9.9
Basic Industries	8.1
Transport and Social Infrastructure	7.3
Industries and Services	6.1
Financial Institutions, Trade & Commodity Finance	3.2
Leveraged and Acquisition Finance, Mezzanine, Equity	0.2
Total	**59.9**

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

KfW IPEX-Bank GmbH key figures

	2013	2012
	EUR in billions	EUR in billions
Balance sheet key figures		
Total assets	23,4	23,5
Volume of lending	29,8	29,1
Contingent liabilities	2,2	2,1
Irrevocable loan commitments	6,4	5,9
Assets held in trust	0,2	0,1
Volume of business (total assets, contingent liabilities and irrevocable loan commitments)	32,0	31,4
Equity	3,2	3,1
Equity ratio (%)	13,7	13,2
Results	**EUR in millions**	**EUR in millions**
Operating income before risk provisions/valuations	285	264
Risk provisions and valuation	–192	–244
Net income	85	17
Result of the Export and Project Finance business sector (segment report consolidated financial statements of the KfW Group)	437	298
Number of employees (including Management Board)	**611**	**558**

Responsible banking

As one of the world's leading providers of export and project finance, we structure tailored loans for capital goods and services, economic and social infrastructure projects as well as international projects aimed at environmental and climate protection. In doing so we are helping our German and European customers to compete successfully in global competition. We also secure growth and jobs, help to establish vital links within our globalised society and safeguard the livelihoods of future generations.

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››› As a leading provider of project and export finance, we ensure that German and European exporters are able to compete on the international stage, which in turn secures growth and jobs in Germany and Europe.

Dear Readers

There were many facets to the 2013 financial year for our bank. Restrained global economic growth combined with new participants on the international financing market made for a challenging market environment overall, while we – all the bank's employees – continued to put in immense effort to ensure our bank is well placed for the future, while also generating a pleasingly high volume of new business.

In 2013, we conducted an in-depth analysis into the development of global markets and the potential they could offer our business. We also launched new products, expanded our workforce to over 600 employees and, last but not least, made changes to our management structure. However, our main focus was on ensuring the continuity and strength of our business model, and this strategy proved successful: By concentrating on key industries for the German and European economies and providing them with medium- and long-term financing, our new commitments reached EUR 13.7 billion – more than we had expected. This means we can look back on the past year with satisfaction, and even a bit of pride.

We refined our well-diversified portfolio by adding new business, while maintaining a balance between earnings potential and risk. The Maritime Industries sector department posted the largest new lending volume at EUR 2.8 billion. Financing provided for offshore industry investments and cruise ships, such as a large order placed with MEYER WERFT in Papenburg by the US shipping company Royal Caribbean Cruises Ltd., accounted for a significant proportion of commitments in this sector department. The Power, Renewables and Water sector department provided financing commitments of EUR 2.5 billion. In addition, the Basic Industries and Financial Institutions, Trade & Commodity Finance sector departments each contributed EUR 2 billion to the bank's overall excellent business development.

As a leading project and export financier and part of the KfW Group, we place a strong emphasis on projects aimed at ensuring that our increasingly globalised society is well placed for the future. This includes financing for renewable energy projects and highly-efficient conventional energy projects, as well as investment in energy-efficient, environmentally-sound production facilities and environmentally-friendly means of transport. As a result, we have been one of the world's main financiers of investment in renewable energies for many years and a pioneer amongst German banks in the field of sustainability. We provided over EUR 2 billion of financing for projects with a significant and measurable positive impact on the environment and climate last year, corresponding to 17 % of our financing commitments.

The Export and Project Finance business sector also contributed EUR 437 million to KfW's consolidated earnings. This confirmed its role as an important source of revenue for the KfW Group and allowed

Klaus R. Michalak

Markus Scheer

Christian K. Murach

Christiane Laibach

››› KfW IPEX-Bank supports German and European exporters' international business activities by providing them with effective project and export finance. We assist our customers and their projects worldwide – from medium-sized companies to large corporations. By doing this, we are helping to maintain and develop the export industry's ability to compete on global sales markets.

Klaus R. Michalak
Managing Director of KfW IPEX-Bank
and future CEO

KfW IPEX-Bank to play an active part in securing KfW's long-term promotional capacity.

We would like to take this opportunity to thank the former Speaker of our Management Board, Harald D. Zenke, who left the bank in April 2013, for the contribution he made to this result, and would like to wish him all the best for the future. The Management Board now has a new line-up and we are very much looking forward to working together. Klaus Reinhold Michalak joined KfW IPEX-Bank in May 2013, initially as Managing Director. He is due to take over as CEO as of 1 May 2014.

KfW IPEX-Bank also aims to retain its position as a leading specialist financier and reliable partner to the German and European economies in 2014. Our rigorous internal strategy process will be a key factor in this, helping us to set targets based on annual evaluations and planning in order to align our business with the prevailing market and competitive situation.

We are planning to achieve moderate organic growth in the Export and Project Finance business sector over the next few years. We expect to generate new commitments of EUR 13.2 billion in 2014, somewhat higher than our target for 2013. So far the economic environment has not given any indication to the contrary: While forecasts predict that the economy in industrialised countries will begin to improve following a recent period of weaker growth, in emerging economies growth is expected to continue for the most part. This will create stable demand for exports produced domestically and for funds to finance them.

At the same time, we expect competition among banks to pick up further, and anticipate an additional boost to the economy through high pressure to invest from institutional investors such as insurance companies and pension funds looking for long-term, privately financed investment opportunities. We will adapt to these changing market conditions by working constructively with partners on the financing market to develop solutions to support the German and European industries in their export and investment projects.

In addition to supporting the export industry, we will continue to focus on providing financing to maintain and expand infrastructure such as transport routes including corresponding means of transport, supply networks and social infrastructure, together with projects aimed at improving environmental and climate protection and securing the supply of raw materials in Germany and Europe.

Our skill in structuring finance, our industry expertise and our market experience are what set our bank apart and make us successful, and this is all thanks to our employees' tremendous sense of dedication. As a leading project and export financier, KfW IPEX-Bank depends on well-trained and motivated employees who impress customers with their know-how, service-minded approach and professionalism. For this reason, an important aspect of our human resources strategy is providing young employees with opportunities to gain qualifications. For example, our trainee programme offers a wide range of options to graduates of business-related courses.

Ensuring the long-term retention of our employees is another of our key objectives in the light of demographic changes to come. Our remuneration system, which is linked to performance and success, a family-friendly working model with various part-time working schemes and a range of occupational and health-care benefits form a good basis for this.

We are looking forward to the 2014 financial year – with its many (new) facets!

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

Close, constructive cooperation

Report of the Board of Supervisory Directors 2013

The 2013 reporting year was marked by close cooperation between the Board of Supervisory Directors and the Management Board. The Board of Supervisory Directors considers that it was informed of all significant developments at KfW IPEX-Bank in a timely and comprehensive manner. On the basis of reports and information received, the Board of Supervisory Directors was satisfied of the due and proper conduct of business by the Management Board. We regularly monitored and consulted with the Management Board regarding its management of the company. We were involved in decisions of major importance for the company and granted our approval for business transactions, where required, following extensive consultation and review.

Meetings of the Board of Supervisory Directors

Four ordinary meetings of the Board of Supervisory Directors were held in the past financial year. In each of these, the Management Board reported on current business development, ongoing issues and new business development, presented risk and performance reports and quarterly financial statements, and provided information on shareholder resolutions passed by means of circulation, where applicable.

The first meeting of the Board of Supervisory Directors during the 2013 financial year took place on 27 March 2013. After considering the Management Board's report on the 2012 result and the report from the Chairman of the Audit Committee on the annual audit of the bank's financial statements, we reviewed the financial statements for the previous financial year and resolved – subject to appointment as auditor by the shareholder – to award the audit assignment for the 2013 financial year to KPMG AG Wirtschaftsprüfungsgesellschaft. We also determined the scope of the audit. We approved the Report of the Board of Supervisory Directors and the Corporate Governance Report together with the Declaration of Compliance for the 2012 financial year. Following the Executive Committee's report and in-depth discussion, we recommended that the shareholder appoint Mr Michalak as Mr Zenke's successor from 1 May 2013, initially as Managing Director for one year and then as a member of the Management Board, and advised that it adjust the base salaries of members of the Management Board. We acknowledged the Loan Committee's report and its announcement that it will meet on a monthly basis when necessary in the future, as well as the report on the ongoing sale process for the Railpool strategic investment. We were also informed of training opportunities for members of the Board of Supervisory Directors and received information on the Board of Supervisory Directors' insurance cover.

At the meeting on 21 June 2013, we started by discussing and acknowledging the Management Board's report, and then went on to debate the Management Board's initial thoughts on group business sector planning for the 2014 financial year. We acknowledged reports submitted by the Executive, Audit and Loan Committees, and went on to discuss the handling of insider information and the compliance officer's annual report. We were then informed of current regulatory developments with regard to the future supervision of KfW IPEX-Bank and KfW.

The main items discussed at the meeting held on 20 September 2013 were the preliminary results of 2014 group business sector planning and the findings of the audit of business operations by the German Financial Supervisory Authority *(Bundesanstalt für Finanzdienstleistungsaufsicht – BaFin)* in accordance with Section 44 of the German Banking Act *(Kreditwesengesetz – KWG)*, in addition to business performance and the revenue and risk situation, which are discussed regularly. Following reports from the Executive and Loan Committees, the subject of VAT fiscal unity was discussed as part of the Audit Committee's report, before we went on to acknowledge the report on the current status of sales negotiations regarding the Railpool strategic investment as well as the Aviation and Rail sector presentation. We were informed of the impact that implementation of the Capital Requirements Directive (CRD IV) and the Capital Requirements Regulation (CRR) will have on the Board of Supervisory Directors and its work.

At the meeting held on 29 November 2013, after discussing current business development in addition to the risk and revenue situation including the main aspects of the risk strategy, we debated the business and risk strategy within the context of 2014 group business sector planning and recommended that the shareholder approve this as the bank's annual plan. In connection with the Executive Committee's report, which again looked at the subject of VAT fiscal unity, we discussed the agreement of targets with the Management Board for the 2014 financial year and advised the shareholder to pass a resolution. We then discussed the requirements of Section 25d of the German Banking Act, which came into force on 1 January 2014, in-depth and, after weighing up all criteria, we came to the conclusion that it is not necessary at present to form a committee as stipulated by Section 25d of the Act in order to ensure the proper discharge of the Board of Supervisory Directors' control function and to monitor and evaluate business transactions. Additional responsibilities are due to be added to the Executive and Audit Committees' range of tasks where necessary when the rules and regulations are set to be revised in spring 2014. We also acknowledged information on KfW IPEX-Bank's remuneration system and approved the sale of shares in the aucip GmbH & Co. KG strategic investment as well as in Railpool GmbH and Railpool

GmbH & Co. KG following extensive discussion. After acknowledging reports submitted by the Audit and Loan Committees, we discussed the Report of the Board of Supervisory Directors and its findings for 2013 along with conclusions drawn from the efficiency review of the Board of Supervisory Directors, passed a resolution on the bank's borrowing for the 2014 financial year, and were informed of revised guidelines for offering financing in non-transparent countries.

Changes to the Board of Supervisory Directors

No personnel changes took place on the Board of Supervisory Directors during the reporting year.

Work in the committees of the Board of Supervisory Directors

The Executive Committee, Loan Committee and Audit Committee fulfilled their designated tasks during the financial year in line with the rules and regulations of KfW IPEX-Bank. The Board of Supervisory Directors was regularly informed of the work of these committees.

There were no conflicts of interest in the voting process of the Board of Supervisory Directors and its committees during the reporting year.

In-depth discussion of the annual audit

The Audit Committee discussed and approved the results of the audit of the 2013 annual financial statements at its meetings on 24 January and 21 March 2014. It recommended that the Board of Supervisory Directors approve the annual financial statements and management report for the 2013 financial year. The discussion centred on the audit report of KPMG AG Wirtschaftsprüfungsgesellschaft (partial audit report II), covering the audit of the annual financial statements as at 31 December 2013 that were prepared by the Management Board as at 18 February 2014, and the management report for the 2013 financial year. KPMG issued an unqualified audit opinion on 4 March 2014.

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 result of the audit, the annual financial statements and the management report at our first ordinary meeting on 21 March 2014 and did not raise any objections. We recommended that the general shareholders' meeting approve the annual financial statements.

The Board of Supervisory Directors endorses the Management Board's recommendation to allocate net profit for the year of EUR 84.9 million to retained earnings.

We would like to thank the Management Board, the Managing Director and all employees for their commitment, hard work and achievements during the 2013 financial year.

Frankfurt am Main, 21 March 2014
On behalf of the Board of Supervisory Directors

N. Kloppenburg

Dr Norbert Kloppenburg
Chairman

››› A ray of hope for health care

Medical technology improves nationwide health services

Exports can make an important contribution to the development of health care – as is the case in South America. KfW IPEX-Bank is financing exports of German medical technology to Brazil. Alliar Medicina Diagnóstica, a diagnostic medicine network, has placed orders for state-of-the-art magnetic resonance scanners, CT scanners and molecular imaging systems. This national organisation already operates more than 80 medical diagnostic centres in 39 cities across Brazil and its aim is to gradually expand its clinical network into rural regions. KfW IPEX-Bank's financing will not only support the German exporter Siemens Healthcare – it will also help to improve medical care in an emerging country.

Leading the way in project and export finance

KfW IPEX-Bank uses its industry expertise and skill in structuring finance to provide its customers with tailored project and export finance solutions in both industrialised and emerging countries.

As one of the world's leading providers of project and export finance, our aim is to support and develop German and European export companies' ability to compete on the global stage. This will safeguard the future success of these companies and their capacity for innovation, which will in turn secure jobs and growth in Germany and Europe. After all, the export industry accounts for around one in every four jobs and half of total economic output in Germany. Without the international activities and global integration of many companies – from large corporations to medium-sized enterprises – it would not be possible to sustain the high level of economic strength and prosperity in our society.

Skill in structuring finance and industry expertise

KfW IPEX-Bank's extensive skill in structuring finance combined with its employees' proven industry and market expertise are what really set it apart. Companies in innovative key industries benefit from our experience spanning over 60 years when undertaking economic and social infrastructure projects or international environmental and climate protection projects in the role of exporter, investor or contractor. We focus on project and export finance and on investment and acquisition finance – in Germany and other industrialised nations as well as in developing and emerging countries.

A commercial bank with a statutory mission

KfW IPEX-Bank is responsible for international export and project finance within the KfW Group. As a legally independent group company, 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. This task is derived from KfW's statutory mission, namely to support the German and European economies and, in this way, to safeguard jobs and ensure economic strength.

In order to meet this expectation, KfW IPEX-Bank is represented in the export industry's key economic and financial centres, with representative offices in Abu Dhabi, Bangkok, Istanbul, Johannesburg, Moscow, Mumbai, New York, São Paulo and Singapore as well as a branch in London. KfW IPEX-Bank uses its many years of business experience in a range of markets across the world to also help companies export to countries where it is difficult to access finance.

››› As a leading project and export financier, we owe our market position to our expertise, our many years' experience and our business model focusing on key sectors of European industry.

Markus Scheer, member of the Management Board of KfW IPEX-Bank

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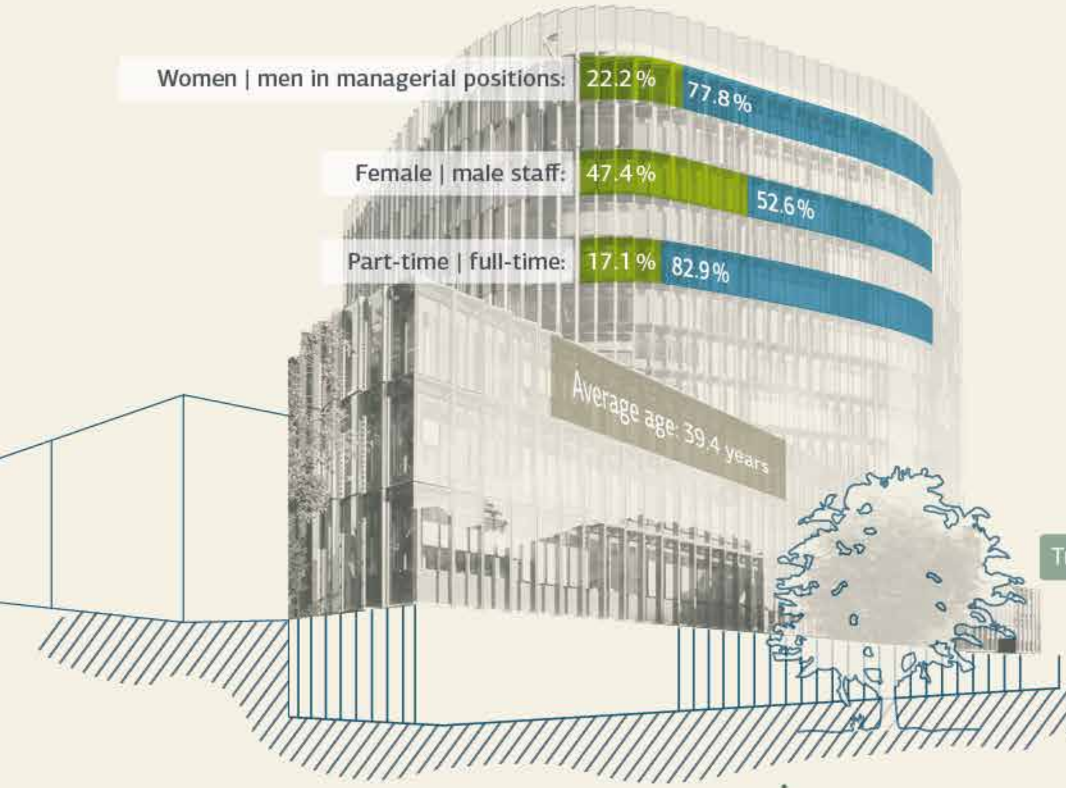
KfW IPEX-Bank at a glance



SECTORS

Maritime Industries	14.3
Power, Renewables and Water	10.8
Aviation and Rail	9.9
Basic Industries	8.1
Transport and Social Infrastructure (PPP)	7.3
Industries and Services	6.1
Financial Institutions, Trade & Commodity Finance	3.2
Leveraged and Acquisition Finance, Mezzanine, Equity	0.2

611
EMPLOYEES

VOLUME OF LENDING IN 2013
EUR **59.9 BILLION**

REPRESENTED
WORLDWIDE

KfW IPEX-Bank is responsible for the Export and Project Finance business sector within the KfW Group. Its mission is to support German and European companies in their international business activities.

Expanding our market position through innovation

Whether it is the automotive manufacturing or mechanical engineering sector, pharmaceuticals or electrical engineering, German and European companies are market leaders in a number of high-tech sectors and there is huge demand for their exports as a result.

One example is Brazil, where KfW IPEX-Bank is financing exports of state-of-the-art German medical technology produced by the German manufacturer Siemens Healthcare. Alliar Medicina Diagnóstica, one of Brazil's largest diagnostic centre operators, has placed orders for innovative magnetic resonance scanners, CT scanners and molecular imaging systems. This national organisation is planning to open a number of new facilities in smaller towns across various Brazilian states and to equip these with advanced diagnostic equipment from Germany. This transaction is the largest order for medical imaging systems ever to be placed with a single manufacturer in Latin America. Financing for the project totals USD 22.5 million and is covered by an export credit guarantee of the German Federal Government. The financing provided by KfW IPEX-Bank will not only support high-tech production in Germany – it will also make a significant contribution to improving medical care in Brazil.

KfW IPEX-Bank has provided a loan of EUR 60 million to enable German machinery and equipment manufacturer Dürr Systems to export key components of a production facility to Turkey. The loan will help the Turkish manufacturer Ford Otomotiv Sanayi to finance a final assembly line and turnkey paintshop at its Ford plant in Kocaeli, around 100 kilometres east of Istanbul. The joint venture between the US Ford Motor Company and Turkish Koç Group plans to use this to expand its product range to include the Transit Courier van. Dürr is a long-standing customer of KfW IPEX-Bank and has been active in Turkey since as early as 1969.

In the maritime industries, high technology is needed to build the third Quantum-class cruise ship for Royal Caribbean Cruises Ltd. This will require the highest standards from Papenburg-based MEYER WERFT in terms of planning and production, not only because of the dimensions of the ship – which will be one of the world's largest with over 2,000 cabins and 16 decks – but also in terms of its energy efficiency, which will make it one of the most environmentally-friendly cruise liners. KfW IPEX-Bank arranged the financing for the vessel, which is backed by export credit insurance by the German Government and includes the shipping CIRR determined by the OECD.

Harnessing opportunities offered by globalisation

Despite restrained global economic growth, in 2013 emerging markets offered particularly good sales opportunities for German and European capital goods. This is also reflected in KfW IPEX-Bank's success, whose share of new business in emerging countries rose slightly year-on-year to 30%. In regional terms, just under 60% of new commitments were generated in Germany and Europe and just over 40% in countries outside Europe.

››› Germany's high export ratio underscores the ability of its export industry to compete on the international stage. It is a symbol of the country's productivity, which we must support and expand in order to secure jobs and prosperity in the face of demographic change.

Dr Jörg Zeuner, Chief Economist of the KfW Group

These include Indonesia, where KfW IPEX-Bank has financed the construction of the "Tuban 2" cement plant together with BNP Paribas. The loan totalling USD 98 million is secured with an export credit guarantee from the German Federal Government and will help to finance the turnkey construction of a new production facility in the north-east of the island of Java. Together with the "Tuban 1" facility already in operation on the site, production capacity is expected to double, bringing the site's annual cement production to 3.4 million tonnes. Borrower and purchaser of the new facility is a subsidiary of the Swiss building materials group Holcim. The international plant construction firm ThyssenKrupp Resource Technologies, based in Essen/Germany, is responsible for designing and engineering the new cement production line and supplying machinery and equipment.

Strengthening the position of mid-sized companies on the export market

A banking consortium led by KfW IPEX-Bank has provided a loan of EUR 76 million to support the construction of a facility to produce foam glass – a state-of-the-art recycled insulation material – in the city of Vladimir, around 190 kilometres east of Moscow. KfW IPEX-Bank extended the tied buyer credit to the Russian Vnesheconombank together with BHF-BANK and assumed the roles of lead arranger, documentation agent and Hermes agent within the transaction.

Four mid-sized companies from Germany will benefit from this form of indirect export support: Heermann Maschinenbau based in Frickenhausen, LfG Industrieofenbau in Wuppertal, Maschinenfabrik Gustav Eirich based in Hardheim and ZIPPE Industrieanlagen in Wertheim will together supply the modern production facility. They will export parts worth EUR 41.3 million to the Russian industrial firm STES-Vladimir, ZAO and will contribute their expertise to the project. The total investment cost for the new plant adds up to the equivalent of EUR 120 million. This is an important next step for these German exporters as they expand their business activities in a rapidly changing market, since there is high pent-up demand in Russia in the areas of energy efficiency and building refurbishment.

KfW IPEX-Bank has been a well-established, reliable partner to medium-sized companies and major corporations in Germany and Europe in the area of project and export finance for over 60 years.

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Effective financing partner for raw materials supply

Ensuring a reliable supply of raw materials to industry is essential to production processes and therefore also in enabling German and European companies to compete effectively in the international marketplace.

As a leading project and export financier, KfW IPEX-Bank makes a vital contribution to securing supplies of raw materials. It is precisely in this cyclical market where we benefit from our long-standing, tenable customer relationships and in-depth, comprehensive understanding of global markets and how they develop.

We finance mining projects and gas pipelines, and are also involved in raw materials pre-financing. For instance, we grant loans to steel producers and merchants and finance exports of plant components and equipment leasing. Our business activities in the petrochemicals sector focus on the provision of financing for refineries and systems used to produce basic chemicals and fertilisers.

In addition to environmental and social issues, transparency plays a particularly important role in the financing we provide for raw materials projects. For this reason, we support the Extractive Industries Transparency Initiative (EITI) as a financing partner of basic industries. The aim behind this initiative is to ensure that income from raw materials projects in developing and emerging countries reliably finds its way into public budgets, which in turn helps to improve the economic situation of the population as a whole as well as local living conditions.

››› En route to South America with strong wind in our sails

Project finance boosts renewable energy in South America

KfW IPEX-Bank has provided a long-term loan totalling USD 79.5 million to finance the construction of the Generación Eólica Minas S. A. wind farm in Uruguay, which is to supply around 40,000 typical local households with renewable energy. This is the first wind farm that KfW IPEX-Bank has financed in Latin America, a key growth market for renewable sources of energy. European companies from Denmark, Portugal and France will supply the wind turbines, undertake building works and sponsor the project.

KfW IPEX-Bank is a world leader in the provision of financing for technologically demanding projects geared towards generating renewable energy and improving energy efficiency.

Environmental and climate protection preserves natural resources

Ensuring effective environmental and climate protection is one of the main challenges involved in preserving our natural resources in the long term. As a leading project and export financier and part of KfW, KfW IPEX-Bank accepts responsibility for this in its business activities and supports projects aimed at ensuring that our globalised society is well placed for the future. In 2013, the bank provided financing commitments totalling around EUR 2.3 billion for projects with a significant and measurable positive impact on the environment and climate. This financing focused on renewable energy projects and highly-efficient conventional energy projects, as well as energy-efficient, environmentally-sound production facilities and environmentally-friendly means of transport.

KfW IPEX-Bank is one of the world's leading financiers of investment in renewable energies and a pioneer amongst German banks in terms of sustainability. Back at the turn of the millennium, KfW IPEX-Bank was one of the first banks in the country to introduce its own strict environmental and social guidelines for its financings.

European collaboration in the wind energy sector

Following on successful national and international wind farm projects, KfW IPEX-Bank financed the Minas wind farm in the Lavalleja region of Uruguay in 2013, the first-ever wind power station it has financed in Latin America. The bank provided project finance equivalent to approximately EUR 61 million, which will cover around two thirds of the total investment. The 14 wind turbines' net wind yield is equivalent to the electricity needs

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Responsibility as a guiding principle

As a leading project and export financier and part of the KfW Group, we are aware of our particular responsibility towards society. Acting responsibly is one of our guiding principles, and for us this means doing business in a way that preserves the livelihoods of future generations and ensures their quality of life.

Our stated aim of promoting in particular those projects and planned exports that will have a positive impact on the environment and climate has made us one of the world's largest financiers of investment in renewable energies and a pioneer amongst German banks in the field of sustainability. However, we also make sure that all of our other financings are implemented according to the highest standards with regard to their environmental and social impact.

This includes our own office operations. KfW IPEX-Bank's headquarters in Frankfurt are located in the West Arcade, one of the most energy-efficient office buildings in the world. This 13-storey building's primary energy consumption of 98 kilowatt-hours per square metre and year falls well below previous benchmark standards. Together with its parent 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.

Yet responsibility and sustainability mean more to us than just protecting the environment. With our many years' experience and in-depth industry expertise, we create the best possible conditions to ensure the success of projects that we finance. Often, it is only when they receive financing from us that companies with ground-breaking technologies, high-quality products and innovative services are able to compete and succeed in the global marketplace.

Our financing is bound by strict requirements and, after extensive assessments and weighing up all risks, is structured to make it tenable in the long term and to make sure that it does not conceal any unquantifiable risks. It is therefore our responsibility to support our customers as a partner throughout all stages of a project – even if the investment runs into difficulty and we need to work together to find viable solutions to keep the entrepreneurial vision alive.

of some 40,000 typical local households. In addition to the Danish manufacturer Vestas, another European company, Jayme da Costa – a construction firm based in Portugal – is also involved in building the wind farm. Akuo Energy, a leading French renewable energy producer, is sponsoring the project. The region's growing interest in renewable energy and measures to improve energy efficiency are essential not only to ecosystems in South America, but also to global environmental and climate protection.

Bank network promotes environmental and social standards

Given the considerable ecological, social and economic relevance of the projects it finances, KfW IPEX-Bank is a member of the international association Equator Principles Financial Institutions (EPFI). There are now almost 80 banks in the network, which adhere to a framework in order to meet environmental and social standards when financing projects. This includes compliance with the IFC (International Finance Corporation) Performance Standards and the Environmental, Health and Safety (EHS) Guidelines of the World Bank Group.

The Equator Principles III (EP III) were adopted by all equator banks in summer 2013. This extends the framework's scope to include not only project finance but also project-related corporate loans and bridge loans for follow-on project financing. Human rights and climate management requirements have also been made stricter. For example, when providing financing for projects of particular relevance to the climate, equator banks must now ensure that the borrower discloses its emissions data.

Energy efficiency reduces credit risk

As one of the world's largest ship financiers, KfW IPEX-Bank makes it a key priority to ensure that the ships it finances are energy-efficient. A newly developed assessment method enables the bank to take a vessel's energy efficiency into account as an additional criterion when taking 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 special agency of the United Nations). It provides an indicator of a vessel's energy efficiency and CO_2 emissions. This has a positive impact on the environment and also makes good business sense, since energy-efficient ships also involve lower credit risk because they are more likely to be chartered.

Environmental protection at our doorstep

As well as international projects, KfW IPEX-Bank is also a valued and reliable partner in project financings aimed at improving environmental and climate protection at its own doorstep. For instance, the REWE Group is building a new environmentally-friendly logistics centre in Neu-Isenburg in Hesse, for which

KfW IPEX-Bank is a pioneer amongst German banks in the field of sustainability. It was one of the first banks in Germany to develop environmental and social guidelines for all projects it finances as early as 2000.

››› Entrepreneurship and corporate social responsibility are inextricably linked at KfW IPEX-Bank – not only because this helps to preserve our livelihood in the long term, but also because it makes good economic sense.

Christiane Laibach, member of the Management Board of KfW IPEX-Bank

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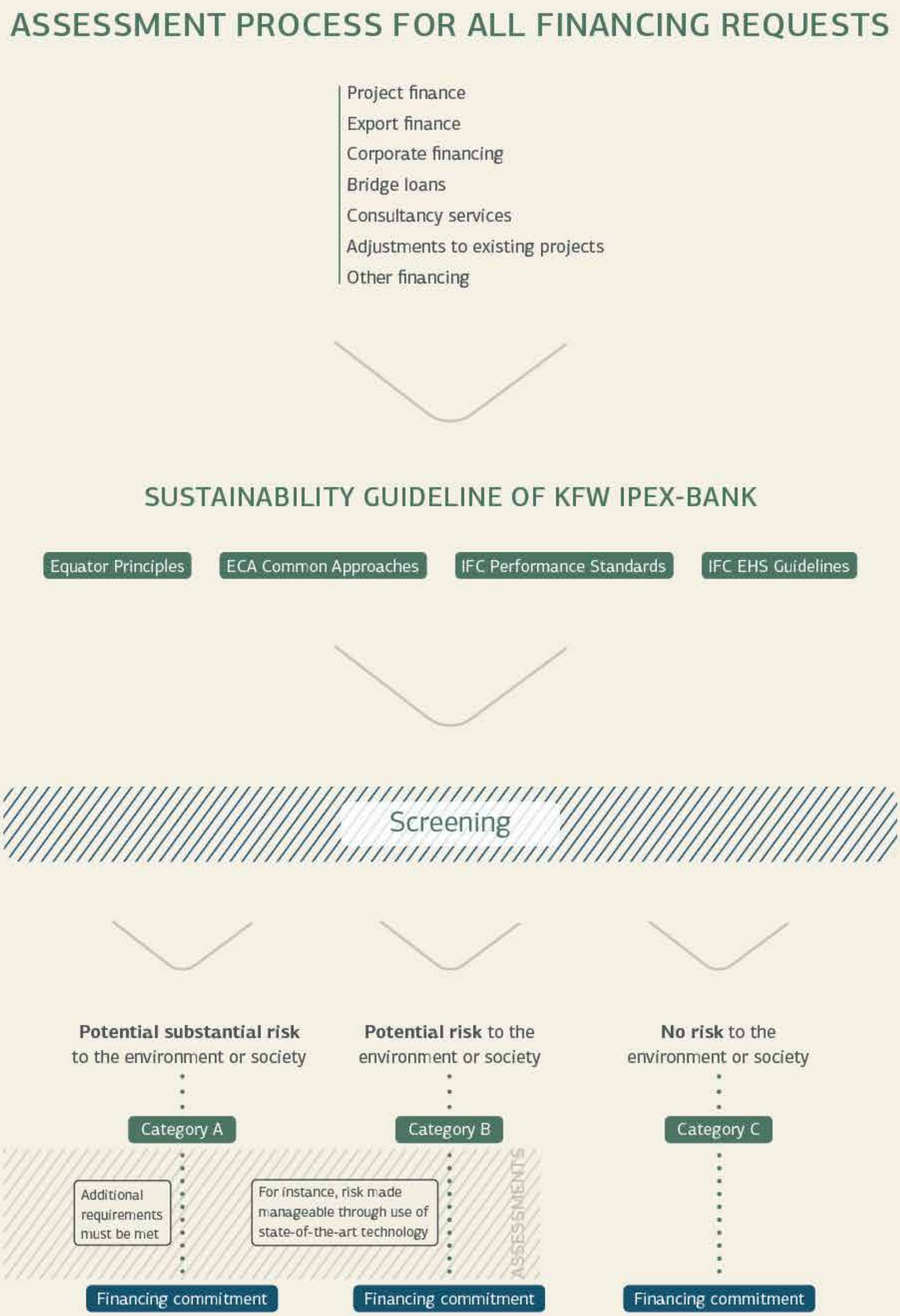
KfW IPEX-Bank's environmental and social assessment process



KfW IPEX-Bank has provided a loan of EUR 125 million from the KfW Energy Efficiency Programme. This centre covering a surface area of 63,000 m² is expected to supply 4,500 stores with up to 24,000 different items. The central location of the REWE Group's new distribution centre right next to the motorway will optimise the transport routes it uses. This will help to reduce its environmental impact, as will the building's high energy efficiency and automated logistics systems. A photovoltaic system with an annual output of 982,000 kilowatt-hours is expected to cover the majority of its energy requirements.

Energy-efficient logistics processes are an important factor as we progress towards greater environmental and climate protection. According to figures from the Fraunhofer Institute for Material Flow and Logistics *(Fraunhofer-Institut für Materialfluss und Logistik)*, these processes currently generate over 5.5 % of global greenhouse gas emissions. Three quarters of the energy consumed is due to transport, while one quarter is due to conveying, storage and order picking processes.

Project finance for more climate protection

Together with eight other national and international banks, KfW IPEX-Bank is providing Stadtwerke Düsseldorf *(Düsseldorf public utilities)* with structured financing for which it assumed the roles of book runner, mandated lead arranger and technical agent. Together they are providing financing of EUR 650 million in total, the largest share of which will be used to construct the new "Fortuna" combined cycle power plant in the city's port area on the banks of the Rhine. The facility is built around a highly-efficient gas turbine, which has already been awarded the German industry innovation award and can also be operated using methanated hydrogen or biogas without any substantial changes in its efficiency.

The state-of-the-art power plant, which will run on Siemens components, will have a capacity of up to 600 megawatts, putting its top efficiency at over 61% for pure electricity generation and around 85% for co-generation. It will likely be the world's most efficient natural gas-fired power plant at the time of its commissioning in early 2016. This will play a major role in helping Stadtwerke Düsseldorf and its shareholders EnBW and the state capital of Düsseldorf to achieve their ambitious climate protection targets.

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A sought-after partner and adviser on matters relating to the promotion of foreign trade

With its in-depth knowledge of export finance and many years' experience with export credit guarantees, KfW IPEX-Bank has established itself as a competent and sought-after partner and adviser to Government. It offers support and advice to government projects and decision-making processes relating to the promotion of foreign trade and plays an active role in developing and improving conditions for German and European export companies.

KfW IPEX-Bank implements the ERP Export Financing Programme on behalf of the German Federal Government and KfW. ERP stands for European Recovery Program and dates back to the Marshall Plan. Under this programme, loans are granted to finance exports of German goods to developing countries. This not only benefits developing and emerging countries, but also German exporters, as it gives them the opportunity to tap into new markets.

KfW IPEX-Bank also manages the CIRR Ship Financing Programme on behalf of the German Government. Under this programme, buyers of ships may obtain a fixed-rate loan based on the CIRR (Commercial Interest Reference Rate), which applies for the entire term of the loan. The OECD sets this minimum interest rate for government-funded financings in order to ensure fair competition.

In cooperation with Northstar Europe, KfW IPEX-Bank offers financing solutions designed specifically for medium-sized exporters for export transactions ranging from EUR 500,000 to EUR 5 million. A simplified procedure and efficient processes tailored precisely to the needs of this financing segment enable the bank to provide financing for medium-sized companies' smaller-volume export transactions in an economically viable manner.

Departures
12:14
Information
Lift
To Way out, Underground and Bus station
Tickets & information
Travel & tourist centre
Bus station
For City Airport use door A
Underground
Way out
Stansted Express
By Platform 10 Customer lounge
By Platform 10 past Taxi rank Cycle store
By Platform 10 First Class lounge
By Platform 10 Lost property Left luggage
By Platform 10 Taxis
Liverpool Street

A ticket to ride – getting more commuters on the railways

International banking consortium promotes rail transport

KfW IPEX-Bank has provided a loan of around EUR 150 million for the Thameslink rolling stock project. The German manufacturer Siemens will supply Greater London's new rail fleet comprising a total of 1,140 vehicles. The project is being financed by a group of 19 international banks and the European Investment Bank. As one of four structuring banks within this consortium, KfW IPEX-Bank plays the role of modelling bank. By getting more commuters off the roads and onto the railways, this will help to further reduce polluting emissions in the UK capital.

KfW IPEX-Bank's extensive skill in structuring finance combined with its employees' proven industry and market expertise are what really set it apart.

Effective financing for modern infrastructure

Infrastructure that is as effective as it is resource-efficient is required to keep momentum in our globalised economy and to secure growth, jobs and quality of life. For over 60 years, KfW IPEX-Bank has provided financing to develop, expand and maintain economic and social infrastructure such as road, rail and supply networks as well as hospitals, schools and administrative buildings.

KfW IPEX-Bank is also one of the largest ship financiers throughout the world and has a highly diversified portfolio in this sector. In addition, it has been one of the world's leading aircraft financiers for over 30 years with customers including over 100 scheduled passenger, cargo and charter airlines, as well as aircraft manufacturers and leasing companies. KfW IPEX-Bank takes particular care to ensure that the aircraft it finances are state-of-the-art with low fuel consumption in order to promote environmental and climate protection by supporting energy-efficient mobility. An example of this is the financing of a new Airbus A330-200 for Korean Air, which was arranged together with Crédit Agricole CIB and provided in a consortium with Crédit Industriel et Commercial. The Airbus A330 family of aircraft is among the most economical and efficient in its class.

Environmentally-friendly transport improves quality of life

One of the main challenges facing infrastructure today is increasing urbanisation and the development of metropolises. Today more than half of the world population lives in cities. Current forecasts predict that this could rise to around three quarters by 2050. Up to 80% of gross domestic product is generated in urban areas, as well as around 70% of climate-relevant greenhouse gas emissions.

Consequently, cities are important partners and stakeholders in international environmental and climate protection and can play a pioneering role in energy-efficient infrastructure planning. One example is the Thameslink rolling stock project, which is expected to improve the capacity, reliability, efficiency and safety of rail transport in London, which in turn will help to promote sustainable transport development. As one of four structuring banks in a consortium of 19 international banks and the European Investment Bank, KfW IPEX-Bank has provided around EUR 150 million to finance a new rail fleet comprising 1,140 vehicles produced by the German manufacturer Siemens. The project will help to get commuters off the roads and onto the railways in order to reduce harmful emissions in Western Europe's most heavily populated metropolitan area with its around 15 million inhabitants.

Promising project finance opportunities in shipping

Inland shipping accounts for one quarter of total inland long-distance transport, making it an important form of infrastructure that is environmentally-friendly as well as cost-effective. Inland shipping's primary energy requirement stands at 1.3 litres of diesel per 100 tonne-kilometres, equivalent to just one third of the energy consumed by road freight transport.

As a result, KfW IPEX-Bank is also financing measures to maintain and expand waterways. For example, financing has

››› We use our financing to develop, maintain and expand vital infrastructure, which helps to ensure the continued development of our globalised economy and society.

Christian K. Murach, member of the Management Board of KfW IPEX-Bank been provided to modernise and automate 29 dams on the Aisne and Meuse rivers in the north-east of France as part of a public-private-partnership (PPP) project – the first of its kind in Europe. This infrastructure project financed by KfW IPEX-Bank will replace outdated systems with ultra-modern automatic dams which require comparatively little maintenance.

The French construction group VINCI and the French waterways authority Voies Navigables de France are the main project partners. Another three banks are involved in the financing, which is made up of various tranches totalling EUR 266 million and has a term of 30 years. The total cost of the project stands at EUR 312 million.

As part of another inland shipping project, KfW IPEX-Bank is financing the construction of five river cruise ships together with UBS for the Swiss-American river carrier Viking River Cruises and is also the mandated lead arranger and facility agent for the transaction. The financing, which has a term of eight and a half years, covers around 75% of the total order value of EUR 120 million. The ships are being built by Neptun Werft in Rostock/Warnemünde, an affiliate of MEYER WERFT in Papenburg, which specialises in river cruise ships. The financing contracts, which were signed in 2013 by VRC, the Meyer Group and KfW IPEX-Bank, document their excellent, long-standing collaboration: Together, the three business partners have made possible the construction of 25 river cruise ships through 2013.

Finance projects that win awards are a testament to KfW IPEX-Bank's performance. Several financing transactions involving KfW IPEX-Bank were named "Deal of the Year" in 2013. Leading international specialist publications present these coveted trophies annually. The awards demonstrate KfW IPEX-Bank's outstanding performance in structuring complex project and export financings, also when compared with global competitors.

For example, the magazine Project Finance International named a project to finance a hydropower station in the Alto Maipo complex near the Chilean capital Santiago "LatAm Power Deal of the Year" – a financing transaction in which KfW IPEX-Bank played an active role. Together with eight Chilean and international financial institutions, KfW IPEX-Bank extended a loan totalling around USD 1.2 billion with a tenor of 20 years. A consortium made up of HOCHTIEF AG from Germany, the Italian C.M.C. Di Ravenna and a Chilean subsidiary of Austria-based Strabag AG was involved in the construction project, as were Brazilian and Chilean subsidiaries of the German company Voith Hydro.

KfW IPEX-Bank received several awards, not only from Project Finance International but also from Global Trade Review, Project Finance Magazine and Trade Finance Magazine for its involvement in a project to finance the Sadara petrochemical project in Saudi Arabia. With total investment of around USD 20 billion, this is the largest-ever project financing in the Middle East, and probably the biggest in the world in 2013. KfW IPEX-Bank is the only German bank in the consortium made up of numerous international banks and export credit insurers. In addition to its own investment of USD 200 million, the bank also assumed the role of Hermes structurer and agent for a volume of USD 425 million. German exporters including ThyssenKrupp Uhde, Josef Meissner, Alstom, MAN Diesel&Turbo, Siemens, John Zink KEU, Coperion Werner&Pfleiderer and many medium-sized German companies are supplying components worth a combined total of around USD 600 million to USD 700 million.

PFI AWARDS 2013

GTR BEST DEALS 2013

ProjectFinance Deals of the Year 2013

TRADE FINANCE AWARDS

››› Business development

Effective project and export financier

Experience and expertise ensure global competitiveness

Jobs and prosperity in Germany and Europe are heavily dependent on their export industries' success on international markets. KfW IPEX-Bank's mission is to play an active role in this and support German and European companies' business activities throughout the world.

KfW IPEX-Bank concentrates on providing medium-term and long-term financing to support the export industry, granting loans for environmental and climate protection projects, and financing transport and infrastructure projects as well as projects to secure supplies of raw materials.

As a specialist bank, KfW IPEX-Bank has been a well-established, reliable financing partner to mid-sized companies and large corporations in Germany and Europe for over 60 years. The bank provides its customers with tailored products to support their projects in both industrialised and emerging countries.

Within the KfW Group KfW IPEX-Bank is responsible for the Export and Project Finance business sector. It is a legally independent, wholly owned subsidiary of KfW.

Challenging economic environment

Global economic growth remained limited in 2013. This was primarily due to weaker growth in industrialised countries, especially in the first six months of the year. Developing and emerging countries, too, were unable to meet expectations as well, although they still offered good sales opportunities for German and European capital goods. Overall, worldwide demand for capital goods from German and European manufacturers remained stable in 2013.

There was tougher competition on the financing market, especially for high-volume project and export finance. The caution of European lending banks in this segment gave way to an increase in market activity. Banks from Asia and emerging countries also began to build up their market presence. Furthermore, low interest rates led to pressure to invest from institutional investors. Apart from their capital market activities, some of these investors are now starting to enter the lending market.

New business development above expectations

The Export and Project Finance business sector for which the bank is responsible generated new commitments of altogether EUR 13.7 billion in 2013, a figure far above expectations. This was partly attributable to high-volume commitments for individual transactions of a singular nature, such as the financing of around EUR 1 billion provided for a major contract to build cruise ships. However, this positive business development is also thanks to consistent and successful implementation of the bank's sales strategy aimed at offering its customers bespoke financing solutions in order to provide them with the best possible support for their international business activities.

A focus on key industries

From mid-sized companies to major corporations, KfW IPEX-Bank supports German and European exporters' business activities across the globe. It focuses on key industries such as the energy sector and basic industries as well as automotive and plant engineering, retail, pharmaceuticals, specialty chemicals, health and telecommunications.

All of KfW IPEX-Bank's sector departments made a positive contribution to the 2013 result. The Maritime Industries sector department posted the largest new lending volume at EUR 2.8 billion. Financing provided for offshore industry investments and cruise ships accounted for a significant proportion of these commitments. The Power, Renewables and Water sector department provided financing commitments of EUR 2.5 billion. This volume is testament to KfW IPEX-Bank's long-term strategy of using its financings to make a significant contribution to the improvement of energy efficiency and to climate protection. In addition, the Basic Industries and Financial Institutions, Trade & Commodity Finance sector departments each contributed EUR 2.0 billion to the bank's excellent business development.

Global presence on target markets

Goods and services coming from Germany and Europe stand for quality and reliability the world over. KfW IPEX-Bank's mission is to help exporters to take advantage of the competitive edge this reputation affords them in order to generate actual business. The bank also makes a conscious effort to operate in countries where it is difficult to obtain financing.

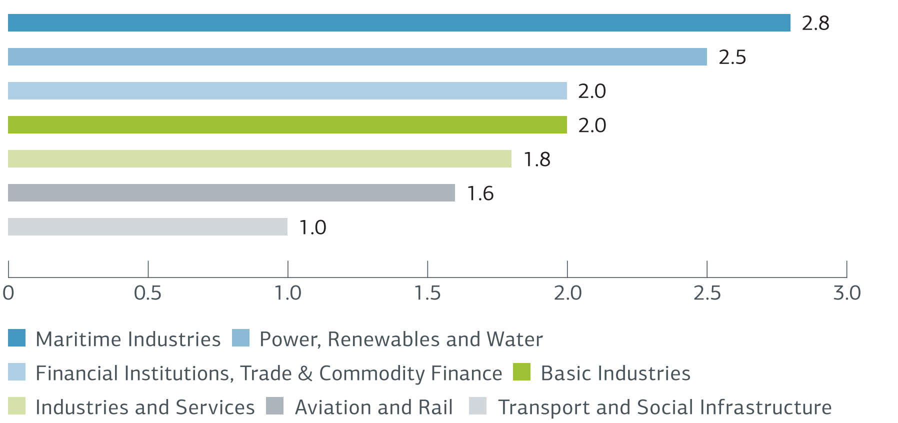
In 2013, Germany accounted for 20 % (EUR 2.7 billion) of new loan commitments, 42 % (EUR 5.8 billion) went to the rest of Europe and countries outside Europe accounted for 38 % (EUR 5.2 billion). The share of new business in emerging markets has risen to 30 %, even increasing slightly year-on-year, emphasising just how important these markets are to the export industry. They have proven to be largely crisis-proof and are still drivers of growth in exports.

In order to support its international activities, KfW IPEX-Bank has representative offices in Abu Dhabi, Bangkok, Istanbul, Johannesburg, Moscow, Mumbai, New York, São Paulo and Singapore and maintains a branch in London.

Environmental and social responsibility

Acting responsibly is one of KfW IPEX-Bank's guiding principles. When conducting its business, it aims as a specialist bank to promote in particular those projects and planned exports that will have a positive impact on the environment and climate. To this end, KfW IPEX-Bank classifies every project it finances based on its environmental and social impact as part of its lending process.

New commitments by sector department (figures in EUR billions)[1)]
Total: EUR 13.7 billion[2)]



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

Given its worldwide commitment and the resulting global ecological, social and economic relevance of its actions, the bank is a member of the international association Equator Principles Financial Institutions (EPFI). There are now nearly 80 "equator" banks, which adhere to an extensive framework in order to meet environmental and social standards when financing projects.

The Sustainability Guideline of KfW IPEX-Bank goes beyond this: It is based on the latest version of internationally recognised regulations, such as the Equator Principles and the OECD's Common Approaches for ECAs. Furthermore, these self-imposed regulations widen the scope of sustainability assessments to all of the bank's remaining financing products.

As one of the world's largest ship financiers, KfW IPEX-Bank has made it a key priority to help promote "green shipping" by ensuring that the vessels it finances are also energy-efficient. A newly developed assessment method enables the bank to take a ship's energy efficiency into account as an additional criterion when making its financing decision and to favour energy-efficient vessels over other, traditionally built ones. This benefits the environment and also makes good business sense, since environmental performance is becoming an increasingly important factor in the likelihood of ships being chartered and therefore in credit default risk.

For KfW IPEX-Bank, another aspect of acting responsibly is rendering its own office operations CO_2-neutral. For instance, 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.

Operating success and significant contribution to consolidated earnings

The Export and Project Finance business sector, for which KfW IPEX-Bank is responsible, contributed EUR 437 million to KfW's consolidated earnings in 2013. This clearly underlines its role as one of the KfW Group's main sources of revenue. Although economic conditions did not offer the best starting point, the business sector still made another active contribution to 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, stood at EUR 634 million, down slightly year-on-year. It mainly comprised net interest income and net commission income, less administrative expenses. The ongoing merchant shipping crisis led to further charges against the valuation result in the reporting year, although these were more moderate than in the previous year. The result from ordinary business activities thus rose to EUR 458 million.

KfW IPEX-Bank GmbH is a legally independent and separate reporting entity which performs all export and project finance market transactions. Bearing in mind overall economic conditions, the bank also reported a good business result.

The volume of lending in the Export and Project Finance business sector was EUR 59.9 billion as at 31 December 2013 (previous year: EUR 60.9 billion).

Further growth in 2014

The general conditions created by the world economy which govern KfW IPEX-Bank's business activities are likely to improve in 2014. While the economy in industrialised countries is expected to improve considerably following a period of weaker growth just recently, growth in emerging countries will continue for the most part. In view of this, demand for exports from Germany and Europe, and for their financing, will presumably remain stable or even rise slightly. KfW IPEX-Bank is therefore planning to achieve moderate organic growth in the Export and Project Finance business sector, for which it is responsible, over the coming year. The 2014 target for new commitments is EUR 13.2 billion (2013 target: EUR 13.1 billion).

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. A remuneration system linked to performance and success, a balance between professional and private life and a variety of occupational and health care benefits are all important components of the bank's HR policy.

At the end of 2013, KfW IPEX-Bank employed altogether 611 people (previous year: 586). The proportion of employees working part-time totalled approximately 17.1 %, up once again compared to the previous year (13.7 %). Female staff currently make up 47.4 % of our workforce. The proportion of women in management also increased and now stands at 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 in 2013 was 39.4 years. The staff turnover rate adjusted for retirement remained very low in the past year at 4.0 % (2012: 4.9 %).

A remuneration system linked to performance and market developments

A key factor in ensuring KfW IPEX-Bank's competitiveness is its employees' commitment to achieving company targets. KfW IPEX-Bank uses a transparent remuneration system based on requirements and market development, where employees' income is linked to their performance and contribution to the bank's success. This was also the subject of new works agreements in 2013 concerning remuneration and targets.

A certified work-life balance

KfW has been certified as a family-friendly company by the Hertie Foundation for over 10 years – one of the first-ever companies, and the first bank in Germany, to receive this certification. As part of the bank's fourth recertification in 2013, which covered both KfW and KfW IPEX-Bank as in previous years, external experts evaluated its HR tools and looked especially closely at how well these are anchored within the bank, as well as the bank's actual culture of work-life balance. The Hertie Foundation renewed the bank's certification, recognising the great importance attached to this issue within the bank and confirming its family friendliness.

››› Well-trained and committed employees are a vital resource for KfW IPEX-Bank. Our human resources policy aims to support and build on this asset. A family-friendly culture plays just as important a part in this as performance-based remuneration.

Yvonne Vornhusen, Director of Human Resources

Gender-sensitive management and cooperation

In 2012, KfW's Executive Board launched a group-wide programme entitled "Gender Balance", which actively encourages the Group to use the potential offered by men and women and to integrate different skills and personalities. The Gender Balance programme combines cultural aspects and conditions relating to the way work is organised with targeted HR development measures. The Management Board has also specified gender balance targets for KfW IPEX-Bank.

The main element of the Gender Balance programme is promoting a gender-sensitive management and culture of collaboration. Events arranged under this programme, such as the Gender Balance Forum, are highly popular among KfW IPEX-Bank employees.

The aim to increase the proportion of women in management at KfW IPEX-Bank also helps to promote a culture of gender-sensitive management and collabor ation, and therefore the objective of ensuring equal opportunities for men and women. Additionally, KfW IPEX-Bank is involved in a group-wide mentoring programme, in which more and more of its female employees are taking part.

The dialogue series launched by KfW IPEX-Bank two years ago focused in 2013 on the topic of working hours. During a business breakfast, all managers and employees were informed of working time models and place of work models already available at KfW IPEX-Bank and were introduced to some examples of best practice. They also discussed other approaches to working models that could be used in the future. The aim is further to promote the development of flexible and effective working conditions.

Active health management

Demographic changes are leading to longer working careers and different performance capabilities. This is reflected in a number of different ways. Workloads are also increasing and work processes are becoming more dynamic. As a result, corporate health management is becoming increasingly important at KfW IPEX-Bank. A concept launched by the "Health" joint working group demonstrates KfW IPEX-Bank's sense of responsibility towards its employees. This concept was approved by KfW in 2013. As the bank's managers play a key role in implementing this strategy, one of the bank's main priorities is providing them with training and making them aware of managerial techniques and working processes that promote good health, as well as offering more health check-ups.

Promoting young talent

Ensuring that young employees gain the necessary qualifications is a central focus of our human resources strategy. Sixteen university graduates were enrolled in our graduate trainee programme at the end of 2013. This programme offers specific training opportunities to graduates of business-related courses, both on and off the job, so that they can learn about the bank's various tasks, projects and lending processes.

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.

The Top Employers Institute also performed an independent evaluation of KfW IPEX-Bank and awarded it Top Arbeitgeber Deutschland 2013 (top employer in Germany in 2013) certification. The Top Employers Institute awarded top marks for our progressive human resources strategy, ongoing improvement of the working environment and continuous investment in staff development.

Close, constructive cooperation

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

Personnel key figures

Employees	611
Part-time employees	17.1 %
Average age	39.4 years
Proportion of female staff	47.4 %
Proportion of male staff	52.6 %
Proportion of women in management	22.2 %
Proportion of disabled employees	0.8 %

A new Airbus joins a family fleet

KfW IPEX-Bank finances Airbus A330-200 for Korean Air

To expand its fleet Korean Air, one of Asia's largest carriers, ordered an Airbus A330-200, among other aircraft. This airplane, which is built in Europe and is one of the most economical and efficient in its class, was financed by KfW IPEX-Bank together with Crédit Agricole CIB and Crédit Industriel et Commercial. Korean Air and KfW IPEX-Bank have a long-standing business relationship. With over 100 scheduled passenger, cargo and charter airlines as well as aircraft manufacturers and leasing companies as customers, KfW IPEX-Bank is one of the world's leading aircraft financiers.

Management Report of KfW IPEX-Bank GmbH

General economic conditions

The global economy remained weak in 2013. Anyone hoping for a gradual improvement in the global economic situation would have been disappointed initially, as the economy only began to pick up slightly in the second half of the year. Meagre growth in industrialised countries came as no surprise. However, even though they continued to outgrow the world as a whole, developing and emerging countries failed to meet expectations. The pace of growth in developing and emerging countries is slower than in the previous decade, and it appears that this is becoming the new norm in these regions. This is due to a range of structural weaknesses in their infrastructure, labour markets, education sectors and financial systems, especially in large economies such as China, Brazil and India. International trade also grew slowly as a result of the sluggish global economy.

Inflation continued to decline in 2013, despite the fact that major central banks around the world retained their extremely expansionary monetary policies. Weak demand, under-utilisation of production capacity and high unemployment curbed inflationary pressures, especially in industrialised nations, while commodity prices began to stagnate or even fall. Inflation in developing and emerging countries remained broadly constant. Concurrently there were some substantial currency devaluations in these regions which pushed up prices.

Political conflicts in the USA concerning the budget and debt ceiling impacted upon its economy. Growth slowed markedly, due primarily to the more restrictive nature of fiscal policy in 2013 compared with 2012. Gross domestic product grew by 1.9% year-on-year in real terms. Countries in the European Economic and Monetary Union (EMU) were able to put the recession behind them over the course of 2013, but this was not enough to boost output over the year as a whole. Further progress was made in overcoming the euro crisis. However, high unemployment, ongoing fiscal consolidation policies in many euro area countries and the difficulty still faced by companies in countries undergoing reform when trying to obtain credit continued to impact the economy significantly. Economic output in the European Economic and Monetary Union (EMU) declined by 0.4% year-on-year in 2013. Growth was somewhat less favourable than we had expected a year ago. One of the main reasons for this was an unexpectedly severe slowdown in growth during the 2012/2013 winter months.

Germany fell far short of its growth potential in 2013 for the second year in a row. The euro area did not emerge from recession until the middle of the year following a great deal of effort. This in particular had a negative impact on the real economy. Subdued sales prospects in its key European home market and general uncertainty due to ongoing reform processes made companies hesitant to invest until well into the year, despite very favourable financing conditions. In contrast, the economy was stimulated by consumption (+0.8%), and housing construction (+0.8%). According to second estimates from the German Federal Statistical Office (*Statistisches Bundesamt*), in real terms GDP grew by 0.4% on average during 2013 as a whole (adjusted for calendar variations and inflation: +0.5%). Economic growth in 2013 was therefore at the lower end of what we had expected one year ago.

The euro crisis eased further in 2013, which affected developments on the financial markets. As a result, risk premiums on bonds from euro area countries undergoing reform fell further compared to German government bonds with comparable maturities. For example, risk premiums on ten-year Italian and Spanish bonds fell to their lowest level since mid-2011. As 2013 went on, financial market participants increasingly began to focus their attention on the direction US monetary policy would take. In June, the US Federal Reserve gave its first indication that it may soon begin to phase out its bond-buying programme in light of improving economic prospects. This led to considerable unrest on the financial markets. Significant market corrections took place on bond markets and in other asset classes. Developing and emerging countries were among those who suffered the most since they were faced with major problems as a result of high volatility on currency markets. US monetary policy-makers therefore endeavoured to calm the situation down again in the period that followed. They postponed their plans to scale back bond-buying initially, and did not launch the programme until December when economic and employment data had improved significantly and a preliminary agreement had been reached in the US budget dispute. All in all, the US Federal Reserve's monetary policy remained very expansionary in 2013. The European Central Bank also retained its accommodative monetary policy and confirmed this by cutting its base rate twice more.

Further easing of the euro crisis had a positive effect on the USD/EUR exchange rate. Varying assessments of US monetary policy throughout the year also had a strong impact on exchange rate movement. The average USD/EUR exchange rate in 2013 was just under 1.33. This is equivalent to appreciation of a good 3 % compared with 2012. The USD/EUR exchange rate ranged between 1.28 and 1.38 over the course of the year.

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 was still weak in 2013, worldwide demand for capital goods from German and European manufacturers remained stable throughout the year. There was tougher competition on the high-volume project and export finance market during the reporting year. The financial and sovereign debt crisis, balance-sheet clean-ups and future Basel III regulations had made European credit banks cautious, but this is no longer so pronounced. European banks began playing a more active role on the market again. Japanese banks and banks from emerging countries also built up a strong market presence. Furthermore, low interest rates led institutional investors such as pension funds and insurance companies to expand their activities. As well as their traditional capital market transactions, they also began to enter the credit markets.

In new business, KfW IPEX-Bank concentrated on borrowers with good ratings, providing financings for projects backed by good collateral and offering support to long-standing customers. In the Export and Project Finance business sector for which the bank is responsible, commitments totalling EUR 13.7 billion were generated in 2013 – an increase of EUR 0.3 billion over the previous year. The volume of new commitments was far above what KfW IPEX-Bank had expected a year earlier. One reason for this is high-volume commitments for individual transactions of a singular nature, such as the financing of around EUR 1 billion provided to build two cruise ships. This positive business development is the result – and marks the success – of consistent implementation of the bank's sales strategy aimed at offering its customers tailored financing solutions in order to provide them with the best possible support for their international business activities. Of these total commitments, EUR 9.2 billion constituted KfW IPEX-Bank's market business, and EUR 4.5 billion was trust business performed on behalf and for the account of KfW.

A key element of the bank's business strategy is its presence on important international target markets for the German and European export industries. This is in line with the bank's mission to help the export economy to 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 altogether nine representative offices throughout the world.

KfW IPEX-Bank's refinancing is based almost completely on funds from KfW, with terms and conditions in line with those offered by banks with comparable ratings. As in the previous year, funding conditions improved further for KfW IPEX-Bank in 2013, 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. Economic stabilisation and the ECB's decision to cut the base rate by 0.25% to 0.50% created a friendly capital market environment and led to a reduction in risk premiums. However, the sovereign debt crisis, rescuing Cyprus from insolvency and the announcement by the Chairman of the US Federal Reserve that the Fed would begin tapering its monetary policy according to a fixed schedule all created unrest and temporarily higher refinancing costs. Credit risk premiums for banks began to fall again in the second half of the year. This development was due in part to improved economic performance in the USA and the prospect of an end to recession in the euro area. During the fourth quarter, the Fed confirmed that it would delay its tapering plans temporarily and the ECB cut its base rate by another 0.25% to 0.25% without any prior warning. KfW IPEX-Bank's funding situation also improved in the course of these developments. 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 2013.

Overview of results of operations, net assets and financial position

In the 2013 financial year, KfW IPEX-Bank achieved operating income before risk provisions and valuations of EUR 285 million, up 8% on the previous year (EUR 264 million). The main components of the bank's earnings were net interest income and net commission income, which together totalled EUR 455 million. While net interest income increased considerably, rising by EUR 41 million (+15%) to EUR 306 million, net commission income was down slightly year-on-year, falling by EUR 6 million (–4%) to EUR 149 million. Administrative expense amounted to EUR 169 million altogether in the financial year, comprising personnel expenses of EUR 72 million and other administrative expenses, including depreciation on property, plant and equipment, of EUR 97 million. Administrative expense was therefore up EUR 26 million (+18%) on the previous year. This was primarily due to a rise in expenses for the services of the parent company KfW in connection with large-scale IT projects. Other operating income of EUR –1 million includes the banking levy expense as well as the result from foreign currency valuation. Income from the reversal of provisions and from services provided to group companies is also included in this item.

The risk provision and valuation result was EUR –192 million. Of this, EUR –189 million was attributable to the risk provision result in the lending business. Due to the bank's conservative approach to risk assessment, in the financial year provisions were increased in particular for the loan portfolio of the Maritime Industries sector department. Far fewer additions were required than in the previous year. Valuations from securities and investments totalling EUR –3 million consisted of write-downs on investments and write-ups on securities held as fixed assets.

The above items resulted in operating income before taxes of EUR 93 million. The bank makes allocations to a fund for general banking risks in accordance with Section 340g of the German Commercial Code (*Handelsgesetzbuch – HGB*), which serves to stabilise solvency ratios against fluctuations in USD exchange rates and will help to ensure that increasingly strict tier 1 capital requirements are met when Basel III comes into force on 1 January 2014. Ongoing adjustment to movements in the USD exchange rate led to the withdrawal of EUR 13 million in the reporting year. After deducting taxes on income, net income for the year totalled EUR 85 million, which represents a significant rise of EUR 68 million on the previous year.

As at 31 December 2013, KfW IPEX-Bank's total assets came to EUR 23.4 billion, a moderate EUR 0.1 billion lower than the previous year. On the assets side, loans and advances to banks increased slightly by EUR 0.1 billion due to an increase in loan receivables. This was offset by a EUR 0.2 billion decline in bonds and other fixed-income securities. Liabilities and equity continued to be dominated by measures launched back in the 2012 financial year to optimise the bank's capital structure in line with Basel III's increasingly strict requirements for capital adequacy of banks. As part of this, in the past financial year the bank repaid another tranche of subordinated liabilities totalling USD 500 million ahead of schedule. By contrast, liabilities to banks rose slightly by EUR 0.3 billion.

Volume of business totalled EUR 32.0 billion as at the balance sheet date, representing a moderate year-on-year rise of EUR 0.5 billion (2%). In addition to total assets, this includes contingent liabilities from guarantees as well as irrevocable loan commitments. In particular, irrevocable loan commitments increased by EUR 0.5 billion (8%) due to growth in the volume of new commitments.

The bank's regulatory capital totalled EUR 4.0 billion as at 31 December 2013. The total capital ratio in accordance with the German Solvency Regulation (*Solvabilitätsverordnung – SolvV*) increased from 17.8% in the previous year to 22.0% in 2013. The tier 1 capital ratio was 18.1% as at the reporting date.

Earnings position

	1 Jan. – 31 Dec. 2013	1 Jan. – 31 Dec. 2012	Change	
	EUR in millions	EUR in millions	EUR in millions	%
Net interest income[1]	306	265	41	15
Net commission income	149	155	–6	–4
General administrative expenses	–169	–143	26	18
Other operating income and expenses	–1	–13	12	92
Operating income before risk provisions/valuations	**285**	**264**	**21**	**8**
Valuations from securities and investments	–3	7	10	> 100
Risk provision result in lending business	–189	–251	–62	–25
Risk provisions and valuations, total	**–192**	**–244**	**–52**	**–21**
Operating income before taxes	**93**	**20**	**73**	**> 100**
Withdrawals from the fund for general banking risks in accordance with Section 340 g of the German Commercial Code (HGB)	13	6	7	> 100
Profit/loss from operating activities before taxes	**106**	**26**	**80**	**> 100**
Taxes on income	–21	–9	12	> 100
Net income for the year	**85**	**17**	**68**	**> 100**

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

Operating income before risk provisions and valuations totalled EUR 285 million. Therefore, KfW IPEX-Bank once again generated very good operating income before risk provisions, which was up EUR 21 million (+8 %) on the previous year.

Net interest income and net commission income

The bank's main source of income was still net interest income and net commission income, which totalled EUR 455 million. The main contributor was net interest income of EUR 306 million, while net commission income accounted for EUR 149 million.

The bank generated total interest income of EUR 636 million, of which EUR 595 million (94 %) resulted from the lending business and money market transactions and EUR 28 million (4 %) from the securities portfolio. The bank also achieved current income from shares and equity investments of EUR 13 million (2 %). Interest expense amounted to EUR 330 million and related mainly to issued promissory note loans and money market transactions (EUR 192 million), as well as interest payments for interest rate swaps and cross-currency swaps (EUR 66 million). Interest expenses also included the hybrid capital instruments of the silent partner contribution (EUR 26 million) and subordinated liabilities (EUR 9 million).

Net commission income of EUR 149 million includes remuneration of EUR 68 million for the E&P trust business, which KfW IPEX-Bank administers on behalf of KfW as a trustee. The bank generated another EUR 67 million in income from processing fees in E&P market business. Net commission income also includes guarantee commissions of EUR 17 million.

Administrative expense

Administrative expense amounted to EUR 169 million and comprises personnel expense of EUR 72 million and non-personnel expense, including depreciation on property, plant and equipment, of EUR 97 million. Non-personnel expense mainly includes expenses for services totalling EUR 57 million (59 %). The item also contains office operating costs (EUR 18 million) and occupancy costs (EUR 9 million). EUR 74 million (76 %) of non-personnel expenses is attributable to expenses for services procured from KfW.

Administrative expense

	2013	2012	Change
	EUR in millions	EUR in millions	EUR in millions
Wages and salaries	62	60	2
Social insurance contributions	7	6	1
Expense for pension provisions and other employee benefits	3	5	–2
Personnel expense	**72**	**71**	**1**
Non-personnel expense	**97**	**72**	**25**
Administrative expense	**169**	**143**	**26**

Risk provisions and valuations
The most significant item in the total risk provision and valuation result of EUR –192 million is the risk provision result in the lending business of EUR –189 million. Valuations from securities and investments came to EUR –3 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.

An increase in acute risk provisions in the Maritime Industries sector department again figured highly in risk provisioning in the lending business during the reporting year. In return, general risk provisions were reduced slightly. Far fewer additions were required than in the previous year. The bank covered all recognisable risks by means of commensurate risk provisions within the context of its conservative risk assessment policy.

Valuations from securities and investments totalling EUR –3 million resulted primarily from write-downs on investments and write-ups on securities held as fixed assets.

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

Net income
After including withdrawals from the fund for general banking risks in accordance with Section 340g of the German Commercial Code (*Handelsgesetzbuch – HGB*) (EUR 13 million) and deducting taxes on income (EUR –21 million), KfW IPEX-Bank recorded net income for the year of EUR 85 million. This substantially exceeds the previous year's net income.

Net assets

Volume of lending for own account
In addition to loans and advances to banks and customers, the volume of lending also includes financial guarantees and irrevocable loan commitments. Total lending amounted to EUR 29.8 billion as of 31 December 2013 and therefore rose by a moderate EUR 0.7 billion (+2 %) year-on-year.

Loans for own account by sector department

Sector department	31 Dec. 2013 EUR in millions	31 Dec. 2012 EUR in millions	Change EUR in millions
Maritime Industries	4,613	5,009	–396
Aviation and Rail	4,548	4,280	268
Power, Renewables and Water	3,444	3,310	134
Industries and Services	3,146	3,178	–32
Basic Industries	2,017	2,096	–79
Transport and Social Infrastructure	1,995	2,117	–122
Financial Institutions, Trade & Commodity Finance	1,206	765	441
Leveraged and Acquisition Finance, Mezzanine, Equity	101	98	3
	21,070	**20,853**	**217**
Other receivables	154	257	–103
Loans and advances to banks and customers	**21,224**	**21,110**	**114**
Financial guarantees[1]	**2,170**	**2,052**	**118**
Irrevocable loan commitments[1]	**6,368**	**5,896**	**472**
Total	**29,762**	**29,058**	**704**

[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 0.5 billion increase in irrevocable loan commitments. This reflects an overall positive development of new business. KfW IPEX-Bank provided new commitments in the E&P business sector totalling EUR 13.7 billion in the reporting year, representing a year-on-year rise of EUR 0.8 billion or +6 % (not including bank refinancing under the CIRR ship refinancing scheme). The bank's market business generated new commitments of EUR 9.2 billion, which made up the largest share (67 %). Other receivables were primarily the result of short-term cash deposits held with KfW. Financial guarantees chiefly include performance guarantees (EUR 1.6 billion) and guaranteed credits (EUR 0.5 billion).

The bank continues to generate the largest share of its total volume of lending in the sector departments of Maritime Industries (despite a reduced volume) as well as Aviation and Rail.

Development of other major balance sheet assets

The carrying amount of the bank's bonds and other fixed-income securities as at the reporting date was EUR 1.9 billion. These were all classified as fixed assets. Compared to the previous year, the portfolio decreased slightly by EUR 0.2 billion. The sale and disposal of held-to-maturity securities was largely offset by new investments in KfW bonds, which at EUR 1.7 billion represent by far the largest share (89 %) of the securities portfolio.

Assets held in trust of EUR 157 million that are recognised in the balance sheet relate exclusively to loan 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.

The carrying amount of equity investments as at 31 December 2013 totalled EUR 118 million. This year-on-year decline of EUR 14 million was primarily the result of pro rata acquisition cost repayments and valuation allowances on existing investments.

Prepaid expenses and deferred charges totalling EUR 22 million primarily include interest expenses from swaps accrued on a pro rata basis.

Other assets totalled EUR 14 million. Of this, EUR 6 million is attributable to tax refund claims from the tax authorities and EUR 6 million to the balancing item for the foreign currency translation of derivative hedges.

Financial position

Refinancing

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

As such, liabilities to banks of EUR 18.4 billion consisted almost entirely of funds borrowed from KfW. Most of this is based on medium- to long-term promissory note loans denominated in euros and US dollars. The item increased moderately year-on-year by EUR 0.3 billion.

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

Structure and development of refinancing

	31 Dec. 2013 EUR in millions	31 Dec. 2012 EUR in millions	Change EUR in millions
Liabilities to banks			
Call money and term borrowings (KfW)	2,580	2,012	568
Promissory note loans and other long-term borrowings (KfW)	15,596	15,946	–350
Interest payable (KfW)	84	113	–29
KfW total	**18,260**	**18,071**	**189**
Other	164	43	121
	18,424	**18,114**	**310**
Liabilities to customers			
Other creditors[1)]	420	511	–91
Total	**18,844**	**18,625**	**219**

1) Includes liabilities to customers from term borrowings (EUR 350 million)

KfW IPEX-Bank's liquidity is secured by a refinancing agreement signed with KfW. KfW IPEX-Bank also has access to an equity investment portfolio, short-term money market investments and an unutilised credit facility with KfW (EUR 1.6 billion) in order to ensure that it is sufficiently solvent at all times.

Please refer to the risk report for further details on the liquidity situation.

Subscribed capital consists of share capital and a silent partner contribution for which there is no contractual maturity date.

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

	31 Dec. 2013 EUR in millions	31 Dec. 2012 EUR in millions	Change EUR in millions
Equity	3,192	3,107	85
Subscribed capital	*2,100*	*2,100*	*0*
Capital reserve	*950*	*950*	*0*
Retained earnings	*57*	*57*	*0*
Balance sheet profit	*85*	*0*	*85*
Subordinated liabilities	725	1,137	–412
Fund for general banking risks pursuant to Section 340 g of the German Commercial Code (HGB)	281	294	–13
Total	**4,198**	**4,538**	**–340**

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 will be implemented in the European Union through the Capital Requirements Directive (CRD IV) and the Capital Requirements Regulation (CRR), which come into effect from 1 January 2014. From this point onwards, substantially stricter requirements will be phased in with regard to tier 1 capital required for banking supervisory purposes. Banking supervisory authorities will focus on common equity tier 1 in the future, which consists of a bank's paid-in equity instruments and disclosed reserves.

KfW IPEX-Bank and KfW as the bank's (indirect) shareholder agreed in December 2011 on an appropriate capitalisation concept to bring the bank's capital structure gradually in line with new regulatory requirements. This concept was approved by the German Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht – BaFin*).

As part of this capitalisation concept, the bank paid an allocation into the capital reserve in the 2012 financial year in order to strengthen its common equity. In return, the bank is successively repaying subordinated capital components. For example, the bank repaid another tranche of subordinated liabilities totalling USD 500 million ahead of schedule in the financial year.

The silent partner contribution and subordinated liabilities meet requirements in force as of the reporting date under Section 10 of the German Banking Act (*Kreditwesengesetz – KWG*) regarding banks' own funds.

KfW IPEX-Bank makes allocations to a fund for general banking risks in accordance with Section 340 g of the German Commercial Code (HGB), which serves to strengthen the bank's tier 1 capital and stabilise solvency ratios with regard to fluctuations in USD exchange rates. This fund amounted to EUR 281 million as at 31 December 2013. Compared with the previous year, the fund declined by EUR 13 million only because the fund's portfolio was adjusted to fluctuations in the USD exchange rate.

Development of other material items of liabilities and equity
Provisions totalled EUR 201 million as at the reporting date, which represents a year-on-year rise of EUR 43 million. This was primarily the result of an increase in provisions for the lending business.

Deferred income of EUR 32 million comprises interest income from swaps accrued on a pro rata basis along with receivables purchases, each totalling EUR 16 million.

Off-balance sheet financial instruments
The total volume of derivative transactions undertaken to hedge interest and exchange rate risks amounted to EUR 13.5 billion as at 31 December 2013. This moderate EUR 0.4 billion year-on-year rise (+3 %) was the result of a corresponding increase in contracts with interest rate risks (interest rate swaps), which represent by far the largest proportion (96 %) of the total volume of off-balance sheet financial instruments. In order to manage market price risks, the bank also uses cross-currency swaps (EUR 0.6 billion) and, to a limited extent, foreign exchange (FX) forward transactions and foreign exchange (FX) swaps.

Summary

In financial year 2013, KfW IPEX-Bank's operating income before risk provisions and valuations was again very good and also up on the previous year's high level. After taking into account the total risk provision and valuation result as well as the withdrawals from the fund for general banking risks, the bank generated a profit before taxes of EUR 106 million. This resulted mainly from the risk provision requirement in the Maritime Industries sector department in conjunction with the bank's conservative risk assessment policy.

Subsequent events

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

Sustainability Report

Environmental and social responsibility

Acting responsibly is one of KfW IPEX-Bank's guiding principles. As a specialist bank, when conducting its business it aims to promote in particular those projects and exports that have a positive impact on the environment and climate. Given its worldwide commitment and the resulting global ecological, social and economic relevance of its actions, the bank is a member of the Equator Principles Financial Institutions (EPFI) international association. There are now almost 80 so-called equator banks, which adhere to an extensive framework in order to meet environmental and social standards when financing projects. This includes compliance with the International Finance Corporation (IFC) Performance Standards and the Environmental, Health, and Safety (EHS) Guidelines of the World Bank Group. In order to enhance these high standards, equator banks take part in a regular dialogue in which KfW IPEX-Bank also participates.

For instance, the Equator Principles III (EP III) were adopted by all equator banks in summer 2013. In addition to project finance, the updated framework's scope now also covers project-related corporate loans and bridge loans for follow-on project financings. Climate management requirements have also been made stricter. When providing financing for climate-relevant projects with emissions exceeding 100,000 tonnes of CO_2 equivalents annually, equator banks must now ensure that the borrower discloses its emissions data. The EP III also place greater emphasis on the importance of human rights, meaning that the companies these banks finance must make a greater effort to uphold their duty of care.

KfW IPEX-Bank's guideline for sustainable financing goes beyond this: It is based on internationally recognised rules in the respective version currently in effect as they are laid out in the updated 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). In addition, its self-imposed regulations widen the scope of sustainability assessments to all of the bank's remaining financing products.

In addition to these regulations, KfW IPEX-Bank takes responsibility for ensuring that its own office operations are CO_2-neutral. For instance, the bank's headquarters in Frankfurt are located in the West Arcade, 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 previous 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, CO_2-neutral through the purchase and retirement of emission certificates.

Environmental and social assessments in export and project finance

KfW IPEX-Bank assigns every project it finances to one of three categories A, B or C as part of its own environmental and social guidelines. Category A covers projects that could have substantial, diverse, and, in some cases, irreversible environmental and social effects, such as raw materials projects or the building of dams which significantly impact on nature. Category B describes projects where the effects on society and the environment are usually more limited and 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.

The expertise of internal KfW specialists is used when assessing a project with regard to its environmental and social impact. In cases where an in-depth review is necessary, KfW IPEX-Bank will only grant relevant financing – where necessary with additional covenants – if internationally accepted environmental and social standards are adhered to and, in the case of project financings, project-related corporate loans and bridge loans, the Equator Principles are complied with. Projects, which are to be carried out within the EU or in an OECD country are exempted from the requirement for an in-depth review. There is a presumption in such cases that, as in Germany, an authorisation and monitoring regime for environmental and social matters is already in place.

In 2013, KfW IPEX-Bank performed an in-depth assessment of 9.5% of the nearly 390 new loan agreements it concluded. Of these, 16 contracts underwent separate, comprehensive assessments, eight of which related to projects in non-OECD countries. Six of these contracts were from category A and the other two from category B. KfW IPEX-Bank primarily financed projects in countries with their own authorisation and monitoring regimes that ensure sufficient protection against negative environmental and social impacts.

Environmental and climate projects in the core business

In 2013, KfW IPEX-Bank provided financing totalling EUR 2.3 billion for projects with a significant and measurable positive impact on the environment and climate. This corresponds to 17 % of the bank's total volume of new commitments. The bank is therefore making an important contribution to achieving the KfW Group's ambitious environmental and climate protection targets. In 2013 the focus was on providing financing for renewable energy projects, but also for highly efficient conventional energy projects. The bank was also heavily involved in the provision of financing for investment in energy-efficient, environmentally-sound production facilities through its Industries and Services sector department and in environmentally-friendly means of transport such as rail vehicles.

As one of the world's largest ship financiers, one of KfW IPEX-Bank's key priorities is helping to promote "green shipping" by ensuring that the ships it finances are energy-efficient. A newly developed assessment method 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 was based on the Energy Efficiency Design Index (EEDI) and the standards of the International Maritime Organization (a special agency of the United Nations). It provides an indicator for the energy efficiency and CO_2 emissions of ships. This benefits the environment and also makes good business sense, since environmental performance is becoming an increasingly important factor in the likelihood of ships being chartered and therefore also in the credit default risk.

All of this underscores the 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.

Future-oriented human resources policy

KfW IPEX-Bank needs well-trained and motivated employees who impress customers with their expertise, service-minded approach and professionalism. Important building blocks of the bank's 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 increased once again when compared to the previous year and now totals 17.1 %. The proportion of female staff remained constant at around 47 %. The proportion of women in management also increased further and is now 22.2 %.

Risk Report

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 income. 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, consists of KfW IPEX-Beteiligungsholding GmbH, Railpool Holding GmbH & Co. KG and Movesta Development Capital Beteiligungsgesellschaft, is dominated to a large extent by KfW IPEX-Bank. Due to their narrowly defined range of activities, the subsidiary companies are only of limited economic importance. As such, material risks arise mostly at KfW IPEX-Bank level.

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 involves reinforcing the bank's marketing activities in Germany and abroad, including tapping additional business opportunities in Europe, and widening its product range. The bank intends to expand its international network (foreign representative offices) for this purpose. These measures will particularly help the bank to face the challenges associated with the mega-trend 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 industry, 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
- Operational risks
- Liquidity risks
- Outsourcing risks
- Concentration risks

Credit risk (in particular counterparty risk) is the most important risk type for KfW IPEX-Bank in this context, followed by market price risks and operational risks (including outsourcing risks). Liquidity risks (in the form of funding cost risk) and concentration 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 the 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 general risk policy conditions within the KfW Group.

Organisation of risk functions

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

When loan applications are assessed for approval, Risk Management gives a second vote, taking risk aspects into account within the sense 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 operational limit management and covers the areas "operational risks" and "business continuity management".

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

KfW IPEX-Bank has outsourced a number of risk management and risk controlling functions and activities to KfW. This includes validation and further development of the rating methodology for counterparty risks, the methodology and controlling related to market price and liquidity risks as well as for operational risks, and maintenance and further development of the limit management system for KfW IPEX-Bank. The portfolio management and risk reporting functions have also been outsourced to KfW. The outsourced functions and activities are governed by service level agreements between KfW IPEX-Bank and KfW.

Monitoring of outsourced functions ensures that KfW IPEX-Bank also fulfils its responsibility for these functions in accordance with Section 25 a (2) of the German Banking Act (*Kreditwesengesetz – KWG*).

Independent 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-oriented.

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

Internal capital adequacy process

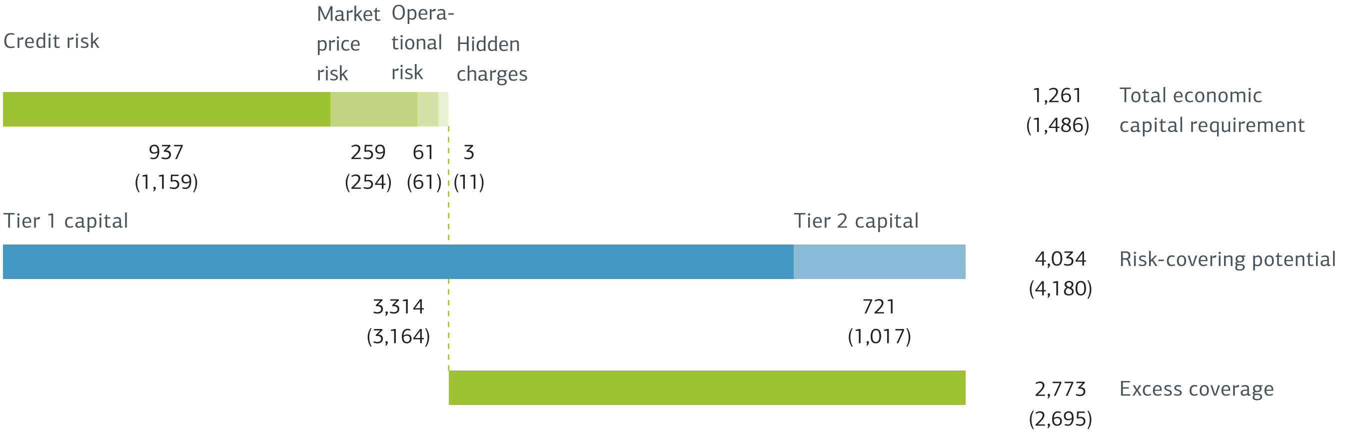
A key aspect of KfW IPEX-Bank's risk-bearing capacity concept (internal capital adequacy process, or ICAAP) is the fact that economic and regulatory provisions concerning risk-bearing capacity represent overarching objectives of equal importance. In concrete terms, this means that all risk monitoring 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 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 available equity in accordance with Section 10 of the German Banking Act.

As at 31 December 2013, the risk-covering potential was EUR 4,034 million, consisting of EUR 3,313.6 million in tier 1 capital and EUR 720.8 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 increased from EUR 2,695 million in 2012 to EUR 2,773 million as at 31 December 2013. This rise was mainly the result of a decline in capital required to cover credit risk from EUR 1,159 million in the previous year to EUR 937 million in 2013. This reduction in capital required for credit risk was primarily due to updated valuation parameters.

The bank's risk-covering potential fell slightly year-on-year in 2013 due to the repayment of a subordinated loan.

Economic risk-bearing capacity as at 31 December 2013
EUR in millions



In brackets: figures as at 31 December 2012

KfW IPEX-Bank's regulatory equity ratios increased significantly year-on-year. As at 31 December 2013, the total capital ratio stood at 22.0 % (previous year: 17.8 %) and the tier 1 capital ratio at 18.1 % (previous year: 13.5 %). This positive development was due to a decline in regulatory capital required to cover credit risk, which was mainly the result of updated valuation parameters as referred to farther above. These ratios are based on the Basel II regime. According to current projections, capital ratios will fall slightly amid the changeover to Basel III in 2014.

A further, prominent feature of the bank's capital adequacy process is its proactive focus resulting from an additional forward-looking component. This system measures the absorption potential of KfW IPEX-Bank's reserves – and therefore its ability to act – when certain 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 concept, a capital planning process (CPP) was established in 2013 which safeguards the bank's risk-bearing capacity in the medium term. The CPP uses scenario-based projections regarding economic and regulatory risk-bearing capacity with a time horizon of 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. Apart from 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. Besides general stress tests (in accordance with the German Solvency Regulation *[Solvabilitätsverordnung – SolvV]* and other regulations), the latest potential macroeconomic risks are used as a basis for variable scenario stress tests. In addition to general stress tests, in 2013 the bank focused in particular on scenarios involving an ongoing crisis in its shipping portfolio and an economic downturn in the BRICS countries (Brazil, Russia, India, China and South Africa) and Turkey. Inverse stress tests are also used to show how KfW IPEX-Bank's risk-bearing capacity could be pushed to its limits in unfavourable constellations.

Credit risks

Lending activities represent the core business of KfW IPEX-Bank. An important focus of overall risk management therefore lies in controlling and monitoring risks in the lending business. Counterparty default risk is the most significant category of credit risk. This comprises the sub-risk types of classic credit risk (credit risk in the narrower sense), counterparty risk, securities risk, country risk, settlement risk and validity risk (creditor's risk that a claim against third parties does not exist).

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

Measurement of counterparty default risk

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

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

The bank's IRBA rating systems are used in accordance with the German Solvency Regulation (*Solvabilitätsordnung - SolvV*) 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, these processes are based on scorecards and follow a uniform, consistent model architecture. Various simulation-based rating modules, licensed from an external provider, are used internally to measure coun-

[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.

terparty default risk for specialist financing. In this case, the risk assessment for a financing transaction is mainly determined by the cash flows from the financed object. The rating procedures are calibrated to a one-year 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 continuously increase the selectivity of all rating processes.

Both the outstanding volume of lending and the valuation of collateral exert a significant influence on the amount of default. As part of the collateral valuation for eligible collateral[2)], expected net proceeds from the realisation of collateral in the event of default are estimated over the entire term 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 expert estimates. The valuation parameters are subject to a regular validation process. This means a reliable valuation of the collateral position is guaranteed at the level of individual collateral items.

Interaction between risk properties of the individual commitments in the loan 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 borrower unit, as defined in the German Banking Act (KWG), and per country. Limits will also be introduced for selected sectors from 2014. Limits are applied based on the variables 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 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 forging business links. 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 the KfW IPEX-Bank portfolio by identifying ways to reduce risk and by bringing about decisions.

[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.

Portfolio management is also included in the annual planning process in order to integrate its risk and portfolio perspective into the strategy process and group business 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, thereby creating transparency for the front-office departments as regards 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.

Intensified loan management and problem loan processing

Exposures with a considerably higher risk of default (watch list cases) are subjected to intensified loan management. This involves closely monitoring the economic performance of the borrower and examining the transferred collateral on a regular basis (throughout the year). The possibility of restructuring or other remedial action is considered in the case of non-performing loans (NPL). If restructuring/other remedial action is not possible or not worthwhile economically, this leads to liquidation and realisation of collateral or even to the sale of the loan on the distressed-loan market. The Special Asset Group processes non-performing loans. In certain 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.

An independent task force (*Restrukturierung KG-Schiffe*) manages and restructures cash flow-/asset-based, non-recourse structured ship financing with single-purpose companies organised as a *Kommanditgesellschaft*, or KG (the German equivalent of a limited partnership). This task force ensures that transactions in this sub-portfolio are processed consistently and in a manner that is focused on preventing or minimising losses.

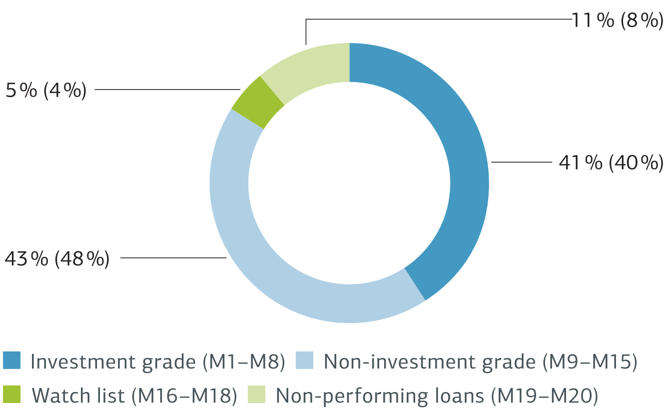
Counterparty risk committee

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 loan portfolio, provides an overall perspective on alternatives for action with regard to watch list and NPL cases as well as other commitments subject to particular observation, and monitors their implementation. In specific cases the Management Board of KfW IPEX-Bank may have to take decisions.

Structure of counterparty default risk

Distribution of net exposure by rating class[1)]

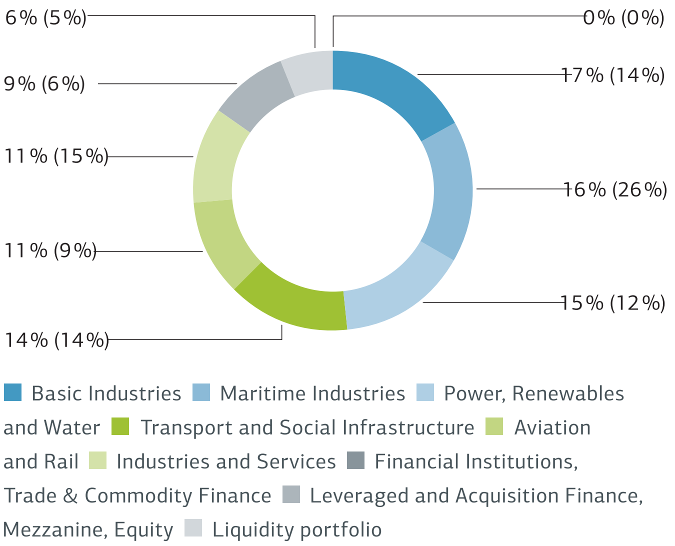
2013 (2012), Total net exposure: EUR 7.3 billion



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

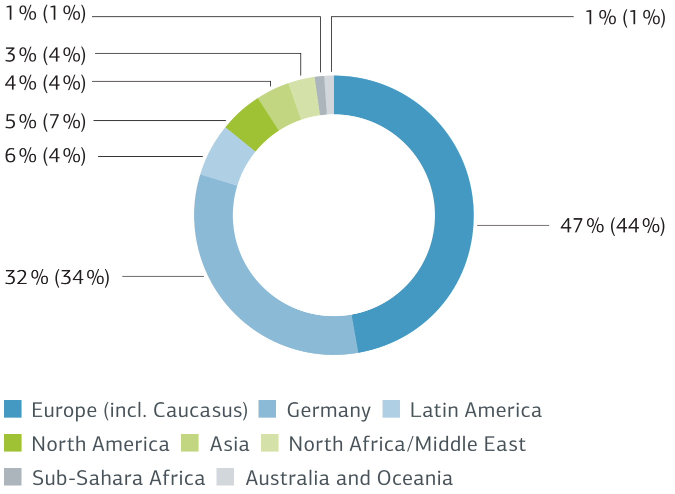
Total net exposure is EUR 7.3 billion, with rating classes M1–M8 accounting for 41 %. A further 43 % falls into rating classes M9-M15. The proportions of watch list and NPL loans amount to 5 % and 11 % of net exposure, respectively. The average probability of default of the performing portfolio rose from 1.29 % (M11) to 1.39 % (M12) in financial year 2013.

Distribution of economic capital by sector department
2013 (2012), Total ECAP: EUR 937 million



The above overview shows the diversification of the portfolio throughout individual sector departments. The largest economic capital commitment is found in the sectors of Basic Industries (17%) and Maritime Industries (16%).

Distribution of economic capital by region
2013 (2012), Total ECAP: EUR 937 million



In regional terms, business is focused on Europe, including Germany, where 79% of economic capital is allocated to counterparty default risk. Country risks are of comparatively minor importance to the bank due to regional distribution and collateral.

Risk provisions for counterparty default risks

All identifiable loan default risks in the lending business are taken into adequate account by creating risk provisions. Specific loan loss provisions and provisions for the lending business increased slightly year-on-year to EUR 660 million as at 31 December 2013. Based on the bank's risk assessment which remains conservative, total risk provisions are largely unchanged versus the previous year.

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 2013:

Specific loan loss provisions

Sector department	31 Dec. 2013 EUR in millions	31 Dec. 2012 EUR in millions	Change EUR in millions
Maritime Industries	462	452	10
Industries and Services	55	67	–12
Aviation and Rail	48	50	–2
Power, Renewables and Water	35	29	6
Basic Industries	24	25	–1
Leveraged and Acquisition Finance, Mezzanine, Equity	20	10	10
Financial Institutions, Trade & Commodity Finance	12	0	12
Transport and Social Infrastructure	4	10	–6
Total	**660**	**643**	**17**

Portfolio loan loss provisions as at 31 December 2013 by sector department were as follows:

Portfolio loan loss provisions

Sector department	31 Dec. 2013 EUR in millions	31 Dec. 2012 EUR in millions	Change EUR in millions
Maritime Industries	20	31	–11
Basic Industries	18	11	7
Power, Renewables and Water	15	11	4
Transport and Social Infrastructure	11	18	–7
Industries and Services	10	14	–4
Aviation and Rail	10	8	2
Financial Institutions, Trade & Commodity Finance	6	7	–1
Leveraged and Acquisition Finance, Mezzanine, Equity	3	2	1
Other	6	4	2
Total	**99**	**106**	**–7**

Write-downs totalling EUR 3 million (previous year: EUR 1 million) were required on long-term securities during the financial year.

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 GmbH is a non-trading book institution. Market price risks are managed so as to ensure that trading transactions do not fall within the definition of Section 1 a (1) in conjunction with Section 1 a (3) of the German Banking Act (KWG), and are thus assigned to the banking book. The portfolios have a medium- to long-term investment horizon. Market price risks are generally managed so as to ensure that they play as subordinate a role as possible at KfW IPEX-Bank GmbH 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 GmbH. 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 GmbH. Credit spread risk is defined as the risk of loss arising from credit spread changes adverse to KfW IPEX-Bank GmbH. At KfW IPEX-Bank GmbH, 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 on 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 only be reinvested 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 GmbH 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 GmbH. 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 to generate 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 (reserve in accordance with Section 340g of the German Commercial Code [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 GmbH in the event of possible changes in the yield curve or foreign exchange rates. The economic capital requirement both for interest rate risk and foreign exchange risk is composed of a capital buffer for present value losses and a risk value. The capital buffer for present value losses is for a present value loss that is accepted by the bank's management and may occur within one year. Furthermore, any losses in value that may occur when a position is closed are measured as value at risk (VaR) with a holding period of two months and a confidence level of 99.96%. Diversification effects between interest rate and foreign exchange risks that would reduce overall risk are not taken into account. Since two separate models are used, which both use 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 2013.

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
2,881	83	136

The value for interest rate risk shows that the present value of KfW IPEX-Bank GmbH's interest position is relatively unaffected by interest rate fluctuations. Even in a worst-case 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 worst-case loss 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 GmbH 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 2013, the securities portfolio had a nominal volume of EUR 1,838 million and contained 22 positions. The issuer structure as at the reporting date was as follows:

Issuer	Nominal volume
	EUR in millions
KfW	1,635
Corporates	161
Pfandbrief bonds	15
Financial institutions	27
Total	**1,838**

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 2013, the nominal values of the entire securities portfolio broke down into the following sub-portfolios:

Sub-portfolio	Nominal volume
	EUR in millions
Equity investment portfolio	1,635
Liquidity portfolio	42
Other securities	161
Total	**1,838**

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 (KWG) – in conjunction with the German Liquidity Regulation (*Liquiditätsverordnung – LiqV*). The liquidity portfolio is a phase-out portfolio. The maturities in the liquidity portfolio are reinvested in the equity investment portfolio, which contains only fixed-income bonds denominated in EUR (issued by KfW).

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 2013 was EUR 41 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

KfW IPEX-Bank GmbH's solvency risk is considerably limited by an existing refinancing agreement with KfW. The refinancing agreement guarantees KfW IPEX-Bank GmbH access to liquidity through KfW at any time (at market conditions). KfW IPEX-Bank GmbH also has access to the liquidity portfolio, the equity investment portfolio and 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 (KWG) in conjunction with the German Liquidity Regulation (LiqV).

KfW IPEX-Bank GmbH's liquidity requirements are taken into account at group level in the strategic refinancing planning of KfW. By contrast, KfW IPEX-Bank GmbH takes direct responsibility for the operational measurement and management of its own liquidity.

KfW IPEX-Bank GmbH measures its solvency risk on the basis of the regulatory liquidity ratio in accordance with the Liquidity Regulation (LiqV). Operational liquidity is managed by the Treasury department of KfW IPEX-Bank GmbH 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 maintain the ratio within a specified target corridor. 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 refinancing costs on the liabilities side and refinancing contributions 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 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 CRR, 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 (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 operational risks and business continuity management as the central body responsible for operational risk issues,
- Inclusion of the Internal Auditing department as an independent control mechanism.

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

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 avoid losses from operational risks and to identify unfavourable trends. The indicators address various operational risk areas and are included in quarterly reporting on operational risks.

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

Measures derived to 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 refinancing, finance, financial and risk controlling, risk management, IT and reporting to KfW. These constitute major outsourcing arrangements as defined in the Minimum Requirements for Risk Management (MaRisk), which the outsourcing institution must monitor accordingly. Outsourcing arrangements are governed by framework contracts and service level agreements.

KfW IPEX-Bank's outsourcing-monitoring activities are divided into monitoring measures that are process-dependent, measures that are performed alongside processes, and those that are independent of processes. The 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 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 these 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, refinancing takes place in the same currency.

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

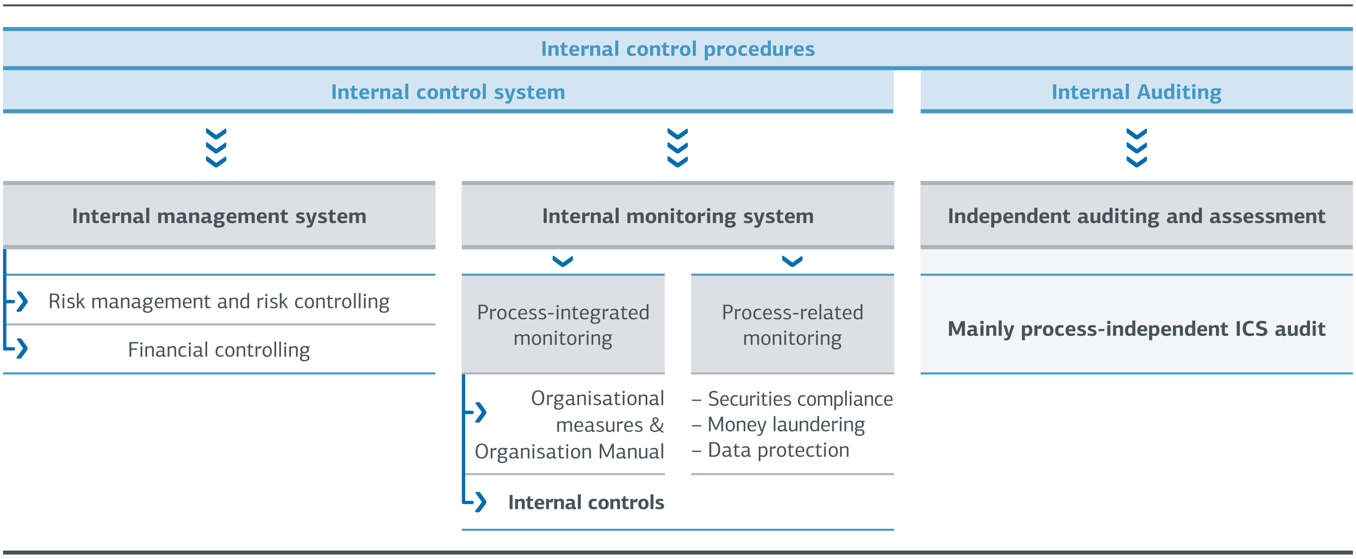
As part of its regular risk reporting process, the bank describes risk concentrations in detail and monitors them on an ongoing basis. Risk concentrations are also included in stress tests.

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 regulations that have been put in place are functioning and complied with.

KfW IPEX-Bank's ICS includes the internal management system (regulations 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 form the procedural rules of KfW IPEX-Bank).



Internal Auditing

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

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

Internal Auditing's audit reporting also includes the findings from audits carried out by the respective internal auditing departments responsible for the outsourced processes. 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, terrorism financing and other criminal activities. 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 Board of Supervisory Directors/Audit Committee based on statutory reporting requirements. KfW IPEX-Bank's independent ICS framework forms the basis for this. In order to ensure group-wide standards to facilitate understanding, also with regard to the basic methodology, the ICS of KfW IPEX-Bank is based on the ICS framework of KfW, particularly in terms of the structure of the internal control system using the COSO model[3].

Monitoring measures integrated into processes help to avoid, reduce, detect and/or correct processing errors or financial losses. For this purpose control activities have been incorporated into the business processes of KfW IPEX-Bank. The effectiveness of 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 established processes of the Internal Auditing department. These are geared towards 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 the accounting-related internal control system of KfW.

The performance of these 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.

Summary

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

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

Changes in valuation parameters in the past financial year led to a reduction in capital required for covering credit risk and to an increase in regulatory capital ratios. The bank's risk-bearing capacity was adequate at all times throughout the past financial year. Regulatory capital requirements were likewise consistently adhered to.

[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

After two weak years, the global economic situation brightened somewhat in the second half of 2013. The world economy is expected to continue recovering in 2014, which will lead to a slight upturn. However, unlike recent years, industrialised countries will be the biggest contributors. The euro area is expected to return to growth in 2014 following two years of decline. Conditions in the USA are also conducive to stronger growth. Yet the upward dynamics in Japan are predicted to lose momentum owing to a forthcoming increase in value-added tax.

Developing and emerging countries are faced with significant structural weaknesses in their infrastructure, labour markets, education sectors and financial systems. Consequently, their long-term rate of growth will remain slower than in the 2000s. Capital market developments are also weighing on economic growth. When the US Federal Reserve began to phase out its highly expansionary monetary policy, this was a signal for international investors to reduce their exposure in developing and emerging countries. This has led to rising financing costs and heightened uncertainty due to volatile trends in currencies, bonds and shares. Nevertheless, developing and emerging countries will benefit from positive development in industrialised countries. As a result, a slightly higher pace of growth is forecast for these countries in 2014 than in 2013. Inflation will remain largely the same.

Moderate economic growth is expected for countries in the European Economic and Monetary Union (EMU) in 2014. This will require further progress to be made in resolving the euro crisis in order to alleviate uncertainty among companies and private households. Only then will improved financial market conditions have a sustainable positive impact on overall economic growth. However, high unemployment and fiscal consolidation policies adopted by many EMU member states will continue to hamper dynamic economic recovery. Overall, KfW IPEX-Bank forecasts that the GDP in the EMU will grow in real terms by around 1.25% over 2014 as a whole. The economic situation in Germany appears much more favourable at the start of 2014 than it did a year ago. As the international economic environment improves, this is likely to stimulate German exports. The German economy could grow by up to 2% in real terms in 2014. In light of this, it is likely that demand for exports from Germany and Europe, and for their financing, will remain stable or even rise slightly.

Despite the sovereign debt and financial crisis that refuses to let up, competition among banks is expected to pick up further. A lot of pressure to invest will also come from institutional investors, such as insurance companies and pension funds, looking for long-term, privately financed investment opportunities. KfW IPEX-Bank will adapt to these changing market conditions by working constructively with partners on the financing market to develop solutions to support German and European industry in their export and investment projects.

Against this backdrop, KfW IPEX-Bank aims to sustain its position as a leading specialist financier and stable partner of the German and European economies. The development of sales markets in industrialised and emerging countries offers further export opportunities for German and European companies. This is why KfW IPEX-Bank's activities will continue to focus on supporting German and European companies' international business activities in the coming year – by providing tailored medium- and long-term financing for exports and foreign investment projects in key industries.

The Power, Renewables and Water sector department is expected to make a comparatively large contribution to the bank's total commitments. Financings in Basic Industries and in Financial Institutions, Trade & Commodity Finance are also likely to represent an above-average share of new business in 2014. The bank will continue to take on new business in the area of asset finance 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, emerging economies in Asia, the Arab world, southern Africa and Latin America.

KfW IPEX-Bank plans to expand its refinancing options within the Group with its own licence to offer Public Pfandbriefe. This will secure its long-term access to inexpensive refinancing at the conditions applicable to Pfandbriefe for cover pool-eligible loans. Pfandbrief refinancing is essential for the generation of additional new business, particularly in the case of Hermes/ECA-covered business. The first such bond will be issued in the first quarter of 2014. As KfW IPEX-Bank will place its Public Pfandbrief solely with KfW at conditions in line with the market, it will not enter the capital market itself.

Future plans involve increasing marketing, further developing the product portfolio and moderately expanding our foreign representative offices to build on existing customer relationships and tap into new customer groups for financings in the business sector. In addition, the bank intends to maintain its strategic focus while generating a growing share of new business that contributes to climate and environmental protection. KfW IPEX-Bank's planned new business volume for 2014 is a good EUR 13 billion, followed by growth of around 5% p.a. in the years that follow. 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 forecasted result for 2014, which will depend largely on the extent of the risk provisions required. Given the overcapacity in merchant shipping, which is declining only very slowly, we expect the crisis to continue until at least 2015. Against this background, the bank will stick to its strategy in the Maritime Industries sector department in 2014, which is expected to be driven by moderate new commitments, primarily in the offshore industry (oil, gas and wind power) and the cruise industry. KfW IPEX-Bank is expecting a result approximately matching that for 2013.

››› Financial Statements, Notes, Auditor's Report and Corporate Governance Report

Financial Statements of KfW IPEX-Bank GmbH 2013

Balance sheet of KfW IPEX-Bank GmbH as at 31 December 2013

Assets

		31 Dec. 2013			31 Dec. 2012		
	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands
1. Cash reserves							
a) cash on hand			6			6	
b) funds with central banks			0			0	
of which: with the Deutsche Bundesbank	*0*						
c) funds held with postal giro offices			0	**6**		0	**6**
2. Loans and advances to banks							
a) due on demand			194,692			223,435	
b) other loans and advances			653,669	**848,361**		482,451	705,886
3. Loans and advances to customers				**20,375,475**			**20,404,740**
of which: secured by charges on property	*0*						
of which: municipal loans	*1,165,544*						
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			20,816		
of which: eligible as collateral with the Deutsche Bundesbank	*0*						
bb) of other issuers		1,893,320	1,893,320		2,026,749	2,047,565	
of which: eligible as collateral with the Deutsche Bundesbank	*1,785,952*						
c) own bonds			0	**1,893,320**		0	**2,047,565**
nominal value	0						
5. Shares and other non-fixed-income securities				**9,185**			**8,614**
6. Investments				**117,745**			**132,201**
of which: in banks	*360*						
of which: in financial service institutions	*0*						
7. Assets held in trust				**156,700**			**135,985**
of which: loans held in trust	*156,700*						
8. Intangible assets							
a) internally generated industrial property rights and similar rights and assets			0			0	
b) purchased concessions, industrial property rights and similar rights and assets and licences to such rights and assets			82			165	
c) goodwill			0			0	
d) payments on account			0	**82**		0	165
9. Property, plant and equipment				**428**			**407**
10. Other assets				**13,602**			**52,588**
11. Prepaid expenses and deferred charges				**21,673**			**12,742**
Total assets				**23,436,577**			**23,500,899**

Liabilities and equity

		31 Dec. 2013			31 Dec. 2012		
	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands
1. Liabilities to banks							
a) due on demand			51,395			50,141	
b) with agreed term or period of notice			18,373,065	**18,424,460**		18,064,010	18,114,151
2. Liabilities to customers							
a) savings deposits			0			0	
b) other liabilities							
ba) due on demand		6,371			81		
bb) with agreed term or period of notice		414,090	420,461	**420,461**	511,329	511,410	511,410
3. Liabilities held in trust				**156,700**			**135,985**
of which: loans held in trust	*156,700*						
4. Other liabilities				**3,293**			**18,207**
5. Deferred income				**32,305**			**24,710**
6. Provisions							
a) provisions for pensions and similar commitments			82,427			76,486	
b) tax provisions			23,803			13,393	
c) other provisions			95,147	**201,377**		68,933	158,812
7. Subordinated liabilities				**725,111**			**1,136,880**
8. Fund for general banking risks				**281,466**			**294,202**
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) reserve for shares in a company in which KfW IPEX-Bank GmbH holds a controlling or majority stake		0			0		
cc) statutory reserve		0			0		
cd) other retained earnings		56,550	56,550		56,550	56,550	
d) balance sheet profit			84,862	**3,191,404**		0	3,106,542
Total liabilities and equity				**23,436,577**			**23,500,899**
1. Contingent liabilities							
a) from the endorsement of rediscounted bills		0			0		
b) from guarantees and guarantee agreements		2,170,184			2,051,821		
c) assets pledged as collateral on behalf of third parties		0	2,170,184		0	2,051,821	
2. Other obligations							
a) commitments deriving from reverse repurchase agreements		0			0		
b) placing and underwriting commitments		0			0		
c) irrevocable loan commitments		6,368,105	6,368,105		5,895,754	5,895,754	

Income statement of KfW IPEX-Bank GmbH from 1 January 2013 to 31 December 2013

Expenses

		1 Jan.–31 Dec. 2013			1 Jan.–31 Dec. 2012		
	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands
1. Interest expense				**330,404**			407,597
2. Commission expense				**1,878**			1,421
3. Administrative expense							
a) personnel expense							
aa) wages and salaries		61,801			59,924		
ab) social insurance contributions, expense for pension provision and other employee benefits		9,861	71,662		11,295	71,219	
of which: for pension provision	2,997						
b) other administrative expense			97,395	**169,057**		71,568	142,787
4. Depreciation and impairment on intangible assets and property, plant and equipment				**191**			214
5. Other operating expense				**63,694**			23,316
6. Write-downs of and valuation adjustments on loans and certain securities and increase in loan loss provisions				**189,290**			249,825
7. Write-downs of and valuation adjustments on investments, shares in affiliated companies and securities treated as fixed assets				**2,596**			0
8. Taxes on income				**21,393**			9,468
9. Net income for the year				**84,862**			16,992
Total expenses				**863,365**			**851,620**
1. Net income for the year				**84,862**			16,992
2. Allocations to other retained earnings				**0**			(16,992)
Balance sheet profit				**84,862**			**0**

Income

		1 Jan. – 31 Dec. 2013			1 Jan. – 31 Dec. 2012		
	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			595,015			634,071	
b) fixed-income securities and debt register claims			28,041	**623,056**		35,333	669,404
2. Current income from							
a) shares and other non-fixed-income securities			918			920	
b) investments			12,465			1,829	
c) shares in affiliated companies			0	**13,383**		0	2,749
3. Commission income				**151,585**			156,756
4. Withdrawals from the fund for general banking risks				**12,736**			5,798
5. Earnings on allocations to investments, shares in affiliated companies and securities treated as fixed assets				**0**			6,094
6. Other operating income				**62,605**			10,819
Total income				**863,365**			**851,620**

Notes

Accounting and valuation regulations

The individual financial statements of KfW IPEX-Bank GmbH 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 Service Institutions (*Kreditinstituts-Rechnungslegungsverordnung – RechKredV*) and the Limited Liability Companies Act (*Gesetz betreffend die Gesellschaften mit beschränkter Haftung – GmbHG*). Statements on individual items in the balance sheet, which may be made in either the balance sheet or in the notes, are provided in the Notes.

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

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

Fixed asset securities are valued according to the moderate lower of cost or market principle; in the event of 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 more than EUR 150 and up to EUR 1,000, which is depreciated on a straight-line basis over five years.

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

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

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

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

	31 Dec. 2013
	in % p.a.
Interest rate for accounting purposes	4.89
Projected unit credit dynamics[1)]	1.00 bis 3.00
Index-linking of pensions[2)]	1.00 bis 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 Commercial Code (HGB) 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, 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 impairments on loans and advances and certain securities” as well as under the item “Increase in loan loss provisions”. Use is made in the income statement of options to offset pursuant to Section 340 c (2) and Section 340 f (3) of the German Commercial Code. 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 previous accounting practice, 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 integrated KfW even more into the administration of the E&P trust business on a permanent basis. This meant that KfW IPEX-Bank’s legal position as a trustee changed into that of an indirect agent acting on its own behalf, resembling that of a trustee with power of attorney. As a result, this requires application (by analogy) of Section 6 (3) of the Ordinance Regarding the Accounting System for Banks and Financial Service Institutions (*RechKredV*) to balance sheet reporting.

Consequently, KfW IPEX-Bank no longer records the E&P trust business in its balance sheet. The previous year's figures were adjusted accordingly in the interest of improved comparability.

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 (HGB) is taken into account by establishing a provision in accordance with Section 340 a in conjunction with Section 249 (1) sentence 1, 2nd alternative of the Code for a potential excess liability arising from the valuation of the interest-driven banking book. The requirements of accounting practice statement BFA 3 issued by the Banking Panel of Experts (*Bankenfachausschuss – BFA*) of the Institute of Public Auditors in Germany (*Institut der Wirtschaftsprüfer in Deutschland – IDW*) relating to loss-free valuation of the banking book are fully recognised. In order to determine a potential excess liability, KfW IPEX-Bank calculates the balance of all discounted future net income of the banking book. Together with net interest income, this includes relevant fee and commission income, administrative expenses and risk costs to the extent of expected losses. No such provision for anticipated losses was required in the reporting year.

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

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	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
Loans and advances to banks	194,692	85,041	435,620	114,088	14,201	4,719	848,361
(as at 31 Dec. 2012)	*223,435*	*111,962*	*289,823*	*49,431*	*24,586*	*6,649*	*705,886*
Loans and advances to customers	0	1,081,628	2,540,559	10,043,435	6,627,431	82,422	20,375,475
(as at 31 Dec. 2012)	*0*	*837,914*	*3,002,883*	*9,601,527*	*6,875,163*	*87,253*	*20,404,740*
Total	**194,692**	**1,166,669**	**2,976,179**	**10,157,523**	**6,641,632**	**87,141**	**21,223,836**
(as at 31 Dec. 2012)	*223,435*	*949,876*	*3,292,706*	*9,650,958*	*6,899,749*	*93,902*	*21,110,626*
in %	**1**	**6**	**14**	**48**	**31**	**0**	**100**

	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	197,161	120,371	**317,532**
Companies in which KfW IPEX-Bank holds a stake	0	33,861	**33,861**
Subordinated assets	0	81,207	**81,207**

Bonds and other fixed-income securities

Listed/marketable securities

	31 Dec. 2013 EUR in thousands	31 Dec. 2012 EUR in thousands
Listed securities	1,893,320	2,047,565
Unlisted securities	0	0
Marketable securities	**1,893,320**	**2,047,565**

The "Bonds and other fixed-income securities" item totalling EUR 1,893 million (previous year: EUR 2,048 million) contains securities of KfW as an affiliated company amounting to EUR 1,667 million (previous year: EUR 1,293 million). The portfolio includes securities amounting to EUR 426 million (previous year: EUR 715 million) which fall due during the year following the balance sheet date. In addition, it includes subordinated securities in accordance with Section 4 of the Ordinance Regarding the Accounting System for Banks and Financial Service Institutions (RechKredV) of EUR 15 million.

Shares and other non-fixed-income securities

	31 Dec. 2013 EUR in thousands	31 Dec. 2012 EUR in thousands
Listed securities	9,185	8,614
Unlisted securities	0	0
Marketable securities	9,185	**8,614**

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 (RechKredV) 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
	2013[1]	31 Dec. 2013	31 Dec. 2012
	EUR in thousands	EUR in thousands	EUR in thousands
Shares and other non-fixed-income securities	571	9,185	8,614
of which: included in valuation units within the meaning of Section 254 of the German Commercial Code (HGB)	*571*	*9,185*	*8,614*
Investments	–14,456	117,745	132,201
Bonds and other fixed-income securities	–118,048	1,893,320	2,011,368
of which: included in valuation units within the meaning of Section 254 of the Code (HGB)	*–366,147*	*109,008*	*475,155*
Total	**–131,933**	**2,020,250**	**2,152,183**

[1] Including exchange rate changes

	Purchase/ production costs	Additions	Disposals	Transfers	Write-ups	Depreciation/ impairment		Residual book value	Residual book value
						Total	2013	31 Dec. 2013	31 Dec. 2012
	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	414	0	4	0	0	328	82	82	165
Property, plant and equipment[2]	940	236	500	0	0	248	108	428	407
Sum	**1,354**	**236**	**504**	**0**	**0**	**576**	**190**	**510**	**572**
Total								**2,020,760**	**2,152,755**

[2] Of which: as at 31 December 2013: – total value of plant and equipment EUR 428 thousand
– total value of land and buildings used for the bank's activities EUR 0 thousand

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

Bonds and other fixed-income securities held under fixed assets have been valued in accordance with the moderate lower of cost or market principle. As a result, it has been possible to avoid write-downs of EUR 3 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 and for which write-downs have been avoided totals EUR 213 million. The corresponding fair value of these securities (including the underlying swaps) is EUR 210 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[1]
		in %	EUR in thousands	EUR in thousands
1.	MD Capital Beteiligungsgesellschaft mbH, Düsseldorf	50.0	1,224	–517
2.	Railpool GmbH, Munich	50.0	3,842	1,765
3.	Railpool Holding GmbH & Co. KG, Munich	50.0	–8,152	–6,410
			USD in thousands	USD in thousands
4.	Canas Leasing Ltd., Dublin, Ireland	50.0	n/a	n/a
5.	Sperber Rail Holdings Inc., Wilmington, USA	100.0	1,932	2,611
6.	8F Leasing S.A., Luxembourg	22.2	11,547	214

[1] Figures available as at 31 Dec. 2012 only.

The marketable securities amounting to EUR 9 million contained in the item "Investments" are not listed.

Assets held in trust

	31 Dec. 2013 EUR in thousands	31 Dec. 2012 EUR in thousands	Change EUR in thousands
Loans and advances to banks			
a) due on demand	0	0	0
b) other loans and advances	97,079	73,253	23,826
Loans and advances to customers	59,621	62,732	–3,111
Investments	0	0	0
Shares	0	0	0
Total	**156,700**	**135,985**	**20,715**

In addition to assets held in trust of EUR 157 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 21.0 billion (previous year: EUR 22.8 billion) on behalf of KfW as an indirect agent:

Assets administered by KfW IPEX-Bank as indirect agent

	31 Dec. 2013 EUR in thousands	31 Dec. 2012 EUR in thousands	Change EUR in thousands
Loans and advances to banks			
a) due on demand	0	0	0
b) other loans and advances	1,404,997	1,484,731	–79,734
Loans and advances to customers	19,546,233	21,303,634	–1,757,401
Investments	56,250	45,564	10,686
Shares	0	0	0
Total	**21,007,480**	**22,833,929**	**–1,826,449**

Other assets

Other assets totalling EUR 14 million (previous year: EUR 53 million) chiefly relate to loans and advances to the financial authorities resulting from tax prepayments and tax refund claims amounting to EUR 6 million (previous year: EUR 48 million) and to the balancing item for the foreign currency translation of derivative hedges amounting to EUR 6 million.

Prepaid expenses and deferred charges

Prepaid expenses and deferred charges of EUR 22 million include in particular upfront interest payments from swaps amounting to EUR 18 million (previous year: EUR 8 million) and accrued discounts from promissory note loans with KfW amounting to EUR 3 million (previous year: EUR 4 million).

Notes on liabilities

Liabilities to banks and customers

Maturities structure of liabilities

	Due on demand	Maturity with agreed term or period of notice: Up to 3 months	More than 3 months to 1 year	More than 1 year to 5 years	More than 5 years	Pro rata interest	Total
	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands
Liabilities to banks	51,395	3,750,086	3,164,878	8,200,473	3,174,248	83,380	18,424,460
(as at 31 Dec. 2012)	*50,141*	*3,656,607*	*3,238,010*	*7,900,658*	*3,155,916*	*112,819*	*18,114,151*
Liabilities to customers – Other liabilities	6,371	256,743	100,000	1,419	52,885	3,043	420,461
(as at 31 Dec. 2012)	*81*	*292,636*	*60,180*	*67,056*	*87,594*	*3,863*	*511,410*
Total	**57,766**	**4,006,829**	**3,264,878**	**8,201,892**	**3,227,133**	**86,423**	**18,844,921**
(as at 31 Dec. 2012)	*50,222*	*3,949,243*	*3,298,190*	*7,967,714*	*3,243,510*	*116,682*	*18,625,561*
in %	**0**	**21**	**17**	**44**	**17**	**1**	**100**

	Liabilities to Banks	Liabilities to Customers	Total
of which to:	EUR in thousands	EUR in thousands	EUR in thousands
Shareholder	0	0	0
Affiliated companies	18,259,765	0	18,259,765
Companies in which KfW IPEX-Bank holds a stake	0	481	481

Liabilities held in trust

	31 Dec. 2013	31 Dec. 2012	Change
	EUR in thousands	EUR in thousands	EUR in thousands
Liabilities to banks			
a) due on demand	0	0	0
b) with agreed term or period of notice	5,899	6,779	–880
Liabilities to customers			
a) savings deposits	0	0	0
b) other liabilities			
ba) due on demand	0	0	0
bb) with agreed term or period of notice	150,801	129,206	21,595
Total	**156,700**	**135,985**	**20,715**

Other liabilities

Other liabilities totalling EUR 3 million (previous year: EUR 18 million) chiefly include liabilities to the financial authorities amounting to EUR 2 million (previous year: EUR 1 million).

Deferred income

Deferred income totalling EUR 32 million (previous year: EUR 25 million) mainly comprises discounts from receivables purchases and upfront interest payments from swaps that have been received but do not yet impact income, each amounting to EUR 16 million.

Provisions

As well as provisions for pensions and similar commitments totalling EUR 82 million (previous year: EUR 76 million) and provisions for taxes amounting to EUR 24 million (previous year: EUR 13 million), additional provisions amounting to EUR 95 million (previous year: EUR 69 million) were recognised as at 31 December 2013. The latter related in particular to provisions for credit risks amounting to EUR 63 million and liabilities to staff totalling EUR 15 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

A further subordinated loan of USD 500 million was repaid to KfW ahead of schedule on 31 January 2013 as part of the process of implementing the capital measures required to conform to future regulatory provisions.

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

Interest expense for subordinated loans in 2013 amounted to the equivalent of EUR 9 million (previous year: EUR 17 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. 2013 EUR in millions	31 Dec. 2012 EUR in millions	Change EUR in millions
Power, Renewables and Water	801	892	–91
Aviation and Rail	417	345	72
Industries and Services	242	175	67
Maritime Industries	240	251	–11
Financial Institutions, Trade & Commodity Finance	170	51	119
Transport and Social Infrastructure	147	168	–21
Basic Industries	140	156	–16
Leveraged and Acquisition Finance, Mezzanine, Equity	13	14	–1
Total	**2,170**	**2,052**	**118**

The new guarantees given in financial year 2013 amounted to EUR 558 million. In contrast, a total of EUR 440 million was redeemed.

Irrevocable loan commitments

Sector department	31 Dec. 2013 EUR in millions	31 Dec. 2012 EUR in millions	Change EUR in millions
Power, Renewables and Water	1,320	953	367
Basic Industries	1,263	735	528
Maritime Industries	1,015	1,002	13
Industries and Services	798	1,122	–324
Aviation and Rail	753	893	–140
Transport and Social Infrastructure	743	767	–24
Financial Institutions, Trade & Commodity Finance	463	389	74
Leveraged and Acquisition Finance, Mezzanine, Equity	13	35	–22
Total	**6,368**	**5,896**	**472**

Total irrevocable loan commitments as at 31 December 2013 stood at EUR 6,368 million. The 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 Service Institutions (RechKredV)

In financial year 2013, income from Frankfurt am Main and London was as follows:

	31 Dec. 2013			31 Dec. 2012			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	599,976	23,080	623,056	642,332	27,072	669,404	–42,356	–3,992	–46,348
Current income from									
a) Shares and other non-fixed-income securities	918	0	918	920	0	920	–2	0	–2
b) Investments	12,465	0	12,465	1,829	0	1,829	10,636	0	10,636
c) Shares in affiliated companies	0	0	0	0	0	0	0	0	0
Commission income	150,627	958	151,585	150,141	6,615	156,756	486	–5,657	–5,171
Other operating income	55,487	7,118	62,605	5,898	4,921	10,819	49,589	2,197	51,786
Total	**819,473**	**31,156**	**850,629**	**801,120**	**38,608**	**839,728**	**18,353**	**–7,452**	**10,901**

Other operating expense

Other operating expense amounted to EUR 64 million (previous year: EUR 23 million). It mainly includes realised and unrealised exchange rate losses from foreign currency valuation totalling EUR 59 million and the expense for the banking levy of EUR 4 million.

Other operating income

Other operating income amounting to EUR 63 million (previous year: EUR 11 million) chiefly relates to realised and unrealised exchange rate gains from foreign currency valuation totalling EUR 47 million, income from the reversal of provisions totalling EUR 11 million and income for services provided to group companies amounting to EUR 3 million.

Taxes on income

Taxes on income totalling EUR 21 million (previous year: EUR 9 million) are made up of corporate income tax/capital income tax plus a solidarity surcharge totalling EUR 10 million, and trade tax of EUR 11 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 2013.

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

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

As at 31 December 2013, total assets denominated in foreign currency converted in accordance with Section 340h in conjunction with Section 256a of the German Commercial Code (HGB) amounted to EUR 11.9 billion (previous year: EUR 12.0 billion), of which EUR 11.1 billion related to loans and advances to customers and EUR 0.6 billion to loans and advances to banks.

Total liabilities denominated in foreign currency amounted to EUR 12.0 billion (previous year: EUR 12.0 billion), of which EUR 10.4 billion relates to liabilities to banks and EUR 0.7 billion to subordinated liabilities.

Other financial liabilities

Total call obligations arising in connection with equity finance transactions amounted to EUR 34 million (previous year: EUR 45 million).

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

Auditor's fee

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

Valuation units

Listed below are the volumes of underlying transactions in securities held as fixed assets and as the liquidity reserve which are hedged in valuation units against interest risks as at the balance sheet date.

	Nominal value		Carrying amount		Fair value	
	31 Dec. 2013	31 Dec. 2012	31 Dec. 2013	31 Dec. 2012	31 Dec. 2013	31 Dec. 2012
	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	105	461	109	475	111	483
Shares and other non-fixed-income securities	11	11	9	9	10	10
Liquidity reserve						
Bonds and other fixed-income securities	0	35	0	36	0	37
Total	**116**	**507**	**118**	**520**	**121**	**530**

KfW IPEX-Bank uses derivatives only to hedge open positions. The option of accounting for economic hedges as valuation units is exercised solely in relation to securities held in the banking book as designated underlying transactions. The effective 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 the changes in value correlate negatively with the 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 also be assumed that in the future, too, the effects will remain virtually entirely offsetting with respect to the hedged risk until the expected maturities of the valuation units.

In connection with the hedging of interest rate risks in the banking book, 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 (HGB). KfW IPEX-Bank manages the market value of all interest-bearing transactions in the banking book as one unit. As at 31 December 2013 there was a positive present value.

Derivatives reporting

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

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

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

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

In the following table, the calculation of market values for all contract types is based on the market valuation method. It discloses the positive and negative fair values of derivative positions as at 31 December 2013.

Derivative transactions – volumes

	Nominal values		Fair values positive	Fair values negative
	31 Dec. 2013	31 Dec. 2012	31 Dec. 2013	31 Dec. 2013
	EUR in millions	EUR in millions	EUR in millions	EUR in millions
Contracts with interest rate risks				
Interest rate swaps	12,969	12,467	416	538
Total	**12,969**	**12,467**	**416**	**538**
Contracts with foreign exchange risks				
Cross-currency swaps	554	648	16	12
FX swaps	1	13	0	0
FX forward transactions	22	2	0	0
Total	**577**	**663**	**16**	**12**
Share and other price risks	**0**	**0**	**0**	**0**
Credit derivatives	**0**	**0**	**0**	**0**
Total	**13,546**	**13,130**	**432**	**550**

Derivative transactions – maturities by nominal volume

	Interest rate risks		Foreign exchange risks	
	31 Dec. 2013	31 Dec. 2012	31 Dec. 2013	31 Dec. 2012
	EUR in millions	EUR in millions	EUR in millions	EUR in millions
Maturity				
up to 3 months	321	352	107	54
more than 3 months to 1 year	1,356	1,259	29	50
more than 1 year to 5 years	4,804	4,782	415	535
more than 5 years	6,488	6,074	26	24
Total	**12,969**	**12,467**	**577**	**663**

Derivative transactions – counterparties

	Nominal values		Fair values positive	Fair values negative
	31 Dec. 2013	31 Dec. 2012	31 Dec. 2013	31 Dec. 2013
	EUR in millions	EUR in millions	EUR in millions	EUR in millions
Counterparties				
OECD banks	8,622	8,550	72	506
Non-OECD banks	0	0	0	0
Other counterparties	4,899	4,552	359	44
Public sector	25	28	1	0
Total	**13,546**	**13,130**	**432**	**550**

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 10,870 million as at 31 December 2013 (previous year: EUR 9,459 million). In addition, financial guarantees amounting to EUR 110 million (previous year: EUR 68 million) were administered.

	31 Dec. 2013	31 Dec. 2012	Change
	EUR in millions	EUR in millions	EUR in millions
Market business	3,555	3,444	111
Trust business	5,977	5,123	854
Other[1]	1,338	892	446
Total	**10,870**	**9,459**	**1,411**

[1] Including EUR 1,335 million of refinancing for CIRR ship financings by third-party banks (previous year: EUR 892 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 2013.

	2013	2012	Change
Female employees	290	266	24
Male employees	321	288	33
Staff not covered by collective agreements	489	453	36
Staff covered by collective agreements	122	101	21
Total	**611**	**554**	**57**

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

Total compensation paid to the members of the Management Board in financial year 2013 was EUR 1,925 thousand. Details of the compensation paid to the members of the Management Board are given in the following table:

Annual compensation[1)]

	Salary	Variable compensation	Other compensation[2)]	Total
	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands
Harald D. Zenke (Speaker of the Management Board)[3)]	378	156	40	574
Christiane Laibach[4)]	430	–	14	444
Christian K. Murach	393	–	20	413
Markus Scheer	393	–	100	494
Total	**1,594**	**156**	**175**	**1,925**

[1)] Differences may occur in the table due to rounding.
[2)] Other compensation mainly comprises anniversary bonuses, payments in lieu of holiday, the use of company cars, insurance premiums and taxes incurred on such compensation.
[3)] Left KfW IPEX-Bank as at 30 April 2013.
[4)] A new contract was concluded during the financial year.

Total compensation paid to the members of the Board of Supervisory Directors was EUR 154 thousand (net). In addition, attendance fees amounting to EUR 81 thousand (net) were paid. Remuneration is structured as follows: Annual compensation amounts to EUR 22 thousand (net) for membership of the Board of Supervisory Directors and EUR 29 thousand for the chairmanship. In addition, attendance fees of EUR 1 thousand are payable for meetings of the Supervisory Board and the Loan, Executive and Audit Committees respectively, in each case pro rata where membership is for less than the whole year. In addition, members of the Board of Supervisory Directors can claim reimbursement of travel and other miscellaneous expenses to a reasonable extent. Compensation 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.

As at 31 December 2013, provisions for pensions for former members of the Management Board and their dependents stood at altogether EUR 5,991 thousand.

As at 31 December 2013, 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)

Ulrich Goretzki
(KfW IPEX-Bank GmbH employee representative)

Anne Ruth Herkes
(State Secretary, Federal Ministry of Economics and Technology)

Alexander Jacobs
(KfW IPEX-Bank GmbH employee representative)

Dagmar P. Kollmann
(Businesswoman and Supervisory Board member)

Bernd Loewen
(Member of the Executive Board of KfW)

Dr Nadja Marschhausen
(KfW IPEX-Bank GmbH employee representative)

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

Management Board

Harald D. Zenke
Böblingen
(Speaker of the Management Board)
Left the bank on 30 April 2013

Christiane Laibach
Frankfurt am Main

Christian K. Murach
Sulzbach (Taunus)

Markus Scheer
Hofheim am Taunus

Frankfurt am Main, 18 February 2014

Christiane Laibach

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 2013. 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, 04 March 2014

KPMG AG
Wirtschaftsprüfungsgesellschaft

Mock
Certified accountant

Müller
Certified accountant

Corporate Governance Report

As a member of the KfW Group, KfW IPEX-Bank GmbH has committed itself to making its responsible and transparent actions understandable. Both the Management Board and the Board of Supervisory Directors of KfW IPEX-Bank GmbH recognise the principles of the 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 deviations have been disclosed and explained on an annual basis.

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

Declaration of Compliance

The Management Board and the Board of Supervisory Directors of KfW IPEX-Bank GmbH hereby declare: "Since the last Declaration of Compliance submitted on 27 March 2013, 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

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

Delegation to committees

The committees of the Board of Supervisory Directors of KfW IPEX-Bank GmbH, with the exception of the Loan Committee, perform only preparatory work for the Board of Supervisory Directors. The Loan Committee takes final 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 practical and efficiency reasons. The delegation of loan decisions to a loan committee is usual practice at banks. It is used to accelerate the decision-making process and to consolidate technical expertise within the committee.

Loans to members of bodies

According to the Rules of Procedure for the Board of Supervisory Directors, KfW IPEX-Bank GmbH may not grant individual loans to members of the Board of Supervisory Directors. Although the 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 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.

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

One member of the Board of Supervisory Directors appointed by the German Federal Government exercises more than the recommended maximum of three mandates in monitoring bodies, in deviation from Clause 5.2.1 Sentence 2 of the PCGC. There are organisational and professional reasons for this that relate to the Federal Government. The dutiful fulfilment of his or her tasks as a member of the company's Board of Supervisory Directors is not jeopardised as the member in question has sufficient time to exercise his or her mandate for KfW IPEX-Bank GmbH.

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 requires to make necessary changes so that responsibilities are divided up efficiently.

Cooperation between the Management Board and the Board of Supervisory Directors

The Board of Supervisory Directors and the Management Board work together closely for the benefit of KfW IPEX-Bank GmbH. The Management Board, particularly its Speaker, maintains regular contact with the Chairman of the Board of Supervisory Directors and discusses important matters concerning corporate management 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 GmbH, particularly any questions concerning the bank's net assets, financial position and results of operations, risk assessment, risk management and risk controlling. In addition, they discussed the bank’s overall business development and strategic direction.

Management Board

The members of the Management Board manage the activities of KfW IPEX-Bank GmbH with the appropriate due care and diligence of a prudent businessperson pursuant to the laws, Articles of Association 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.

In the reporting year, the responsibilities of the members of the Management Board were as follows:

- Mr Harald D. Zenke (up to 30 April 2013): Speaker of the Management Board and Director of Products and Corporate Affairs
- Ms Christiane Laibach: Director of Risk and Finance
- Mr Christian K. Murach: Director of Markets II/Transport Sectors and Treasury
- Mr Markus Scheer: Director of Markets I/Industry Sectors

Mr Klaus R. Michalak was appointed as Managing Director of KfW IPEX-Bank GmbH with effect from 1 May 2013 and has been Director of Products and Corporate Affairs since this date. The position of Speaker of the Management Board has since been dormant. The duties of the Speaker of the Management Board are now – where possible – performed by the Management Board as a whole or by Mr Christian K. Murach, if necessary.

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

Board of Supervisory Directors

The 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 the Articles of Association of KfW IPEX-Bank GmbH in their current version, the Board of Supervisory Directors consists of nine members: Two representatives from KfW, two representatives from the Federal Government - one each from the Federal Ministry of Finance and the Federal Ministry of 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, 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. Three women were on the Board of Supervisory Directors in the reporting year.

Anyone with five or more monitoring mandates from companies under the supervision of the German Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht – BaFin*) may not serve as a member of the Board of Supervisory Directors. Members of the Board of Supervisory Directors should not serve in a consulting or supervisory role for any significant competitors of the company. The members of the Board of Supervisory Directors complied with these recommendations during the reporting period. The recommendation that members of the Board of Supervisory Directors proposed by the Federal Government should in general not exercise more than three mandates in governing bodies was, however, not complied with. This concerns one of the members proposed by the Federal Government. Conflicts of interest should be disclosed to the Board of Supervisory Directors. When a loan to a governing and/or related body was submitted for approval, this requirement was met by not having the member concerned take part in the vote. 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 three committees to fulfil its consulting 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 questions 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 chairs of the committees report to the Board of Supervisory Directors on a regular basis. The Board of Supervisory Directors has the right to change or rescind the competencies delegated to the committees at any time.

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

Shareholder

KfW IPEX-Beteiligungsholding GmbH owns 100% of the share capital of KfW IPEX-Bank GmbH. The general shareholders' meeting is responsible for all matters for which another governing body does not hold sole responsibility, either by law or by the Articles of Association. It is responsible in particular for the approval of the annual financial statements and the appropriation of the annual profit or retained earnings, for the determination of the amount available for payment of performance-based, variable compensation within the company, for the appointment and removal of members of the Board of Supervisory Directors or of the Management Board, for the 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 GmbH 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 GmbH (the parent company) together with Railpool GmbH & Co. KG and MD Capital Beteiligungsgesellschaft mbH (subsidiary companies).

Protection of deposits

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

Transparency

KfW IPEX-Bank GmbH provides all important information about itself and its annual financial statements on its website. The Corporate Communication department also regularly provides information regarding 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 GmbH.

Risk management

Risk management and risk controlling are key responsibilities of overall bank management at KfW IPEX-Bank GmbH. Using the risk strategy, the Management Board defines the framework for the bank's business activities regarding risk tolerance and the capacity to bear risk. This ensures that KfW IPEX-Bank GmbH can fulfil its special responsibilities with an appropriate risk profile in a sustained, 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 GmbH depends to a high degree on the trust of its shareholder, customers, business partners, employees and the general public in terms of its performance and especially also its integrity. This trust is based not least on implementation of and adherence to the relevant legal and regulatory as well as internal provisions in addition to other applicable laws and regulations. The compliance organisation of KfW IPEX-Bank GmbH includes, in particular, measures for assuring adherence to data protection requirements, ensuring securities compliance, and preventing money laundering, financing of terrorism and other criminal activities. There are corresponding binding rules and procedures that influence the day-to-day implementation of such values and the associated corporate culture; these are continually updated to reflect the current legal and regulatory framework as well as market requirements. A central compliance desk for monitoring compliance with the Minimum Requirements for Risk Management (*Mindestanforderungen an das Risikomanagement – MaRisk*) was added to the bank's Compliance department with effect from 1 January 2014. Training sessions on compliance and money laundering are held on a regular basis for KfW IPEX-Bank GmbH employees.

Accounting and annual audit

On 27 March 2013, the shareholder of KfW IPEX-Bank GmbH appointed KPMG AG Wirtschaftsprüfungsgesellschaft as auditor of the financial statements for the 2013 financial year. The Board of Supervisory Directors then issued the audit mandate to KPMG on 15 August 2013 and in September determined the priorities for the audit 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 any qualifying remarks or potential misstatements in the Declaration of Compliance with the PCGC. A declaration of auditor independence was obtained.

Efficiency review of the Board of Supervisory Directors

The Board of Supervisory Directors reviews the efficiency of its work every two years. It performed its latest self-assessment in the fourth quarter of 2013 on the basis of structured questionnaires. All members of the Board of Supervisory Directors took part. The overall outcome of the review was rated as "good". The Board of Supervisory Directors' self-evaluation does not indicate an urgent or acute need for measures to be taken as regards the composition, organisation or procedures of the Board of Supervisory Directors.

Compensation report

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

Compensation for the Management Board

The compensation system for the Management Board of KfW IPEX-Bank GmbH is intended to remunerate the members of the Management Board according to their roles and areas of responsibility and to take account of individual achievements 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 compensation

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 25 a (5) of the German Banking Act (KWG) in conjunction with the German Compensation Regulation for Institutions (*Institutsvergütungsverordnung*) (as at 31 December 2013). The establishment of the variable, performance-based bonus component is based upon an agreement regarding targets that is concluded between the Management Board and - after consultation with the Board of Supervisory Directors - with the shareholder 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 performance-based bonus, calculated according to achievement of targets, is paid out immediately. The remaining 50 % is reserved as a provisional claim and paid into a so-called "bonus account". It is paid out in equal instalments over the following three years, provided that the bank does not materially miss its financial targets. Reductions in provisional claims, up to and including complete elimination, are possible depending upon the bank's financial performance.

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

Responsibilities

The shareholder regularly consults on and reviews the compensation system for the Management Board, including its contractual elements. It approves the compensation system after consulting with the Board of Supervisory Directors. The most recent review of its appropriateness took place in March 2013.

Contractual fringe benefits

Other compensation primarily includes contractual fringe benefits. The members of the Management Board of KfW IPEX-Bank GmbH

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

	2013	2012	Change
	EUR in thousands	EUR in thousands	EUR in thousands
Members of the Management Board	1,925	1,867	58
Members of the Board of Supervisory Directors	235	180	55
Total	**2,160**	**2,047**	**113**

Annual compensation to members of the Management Board and additions to pension provisions during 2013 and 2012 in EUR thousands[1]

	Salary		Variable compensation		Other compensation[2]		Total		„Bonus account“		Additions to pension provisions	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
	EUR in thousands		EUR in thousands		EUR in thousands		EUR in thousands		EUR in thousands		EUR in thousands	
Harald D. Zenke[3] (Speaker of the Management Board)	378	353	156	59	40	8	574	419	–	59	–	264
Christiane Laibach[4]	430	353	–	60	14	10	444	422	125	75	87	168
Christian K. Murach	393	412	–	60	20	19	413	490	125	75	128	263
Markus Scheer[5]	393	412	–	60	100	18	494	490	125	75	148	132
Total	**1,594**	**1,529**	**156**	**239**	**175**	**55**	**1,925**	**1,822**	**375**	**284**	**362**	**827**

[1] Rounding differences may occur in the table for computational reasons.

[2] This compensation is presented in analogy with the figures given in the notes in accordance with Section 285 (9) of the German Commercial Code (HGB) excluding employer benefits according to the German Social Insurance Act (*Sozialversicherungsgesetz*). The previous year's figures were adjusted accordingly in the interests of improved comparability. These totalled EUR 38 thousand in 2013 (previous year: EUR 45 thousand).

[3] Left KfW IPEX-Bank GmbH on 30 April 2013.

[4] A new contract was concluded during the 2013 financial year.

[5] Other compensation includes a service anniversary bonus.

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 GmbH are also included in special criminal law protection insurance for employees that was established as a group insurance policy.

Other remuneration does not include compensation received for the exercise of corporate mandates and incidental functions held or performed by a member of the Management Board outside the Group with the approval of the competent bodies of KfW IPEX-Bank GmbH. The entire amount of such remuneration is classed as personal income of members of the Management Board. In 2013, the members of the Management Board did not receive compensation for exercising group mandates.

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

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

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

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

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

According to Section 5 (1) of the Articles of Association of KfW IPEX-Bank GmbH, the appointment of a member of the Management Board is not to extend beyond statutory retirement age. Board members who turn 65 years of age and/or reach statutory retirement age and whose contract for serving on the Management Board has expired are entitled to retirement pension payments and may, at their request, retire early when they turn 63 years of age. Members of the Management Board are also entitled to retirement pension payments if their employment ends due to ongoing disability.

Pension commitments for Management Board members as well as for their surviving dependents are based on the 1992 version of the 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 compensation including fringe benefits for the remainder of the contract, whichever is lower.

In principle the maximum retirement pension entitlement equals 70% of the pensionable compensation, 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 German Civil Code (BGB), the retirement pension entitlements will expire according to the legal principles established for employment contracts.

No retirement pension payments were made to former members of the Management Board during the 2013 financial year.

Provisions for pension obligations for former members of the Management Board and their dependents totalled EUR 5,991 thousand at the end of the 2013 financial year (previous year: EUR 5,593 thousand).

Compensation for the Board of Supervisory Directors

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

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

In addition, the members of the Board of Supervisory Directors receive a net fee of EUR 1,000 for each meeting of the Board of Supervisory Directors or of one of its committees 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 GmbH have waived this compensation and the meeting attendance fees since 1 July 2011 in accordance with a fundamental and permanent decision by the Executive Board of KfW to waive such remuneration for mandates exercised within the Group.

Details regarding the remuneration of the Board of Supervisory Directors during the 2013 and 2012 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 2013 in EUR

Member	Dates of membership 2013	Annual compensation	Attendance fees[1]	Total
Dr Kloppenburg	1 Jan.–31 Dec.	–	–	–
Mr Loewen	1 Jan.–31 Dec.	–	–	–
State Secretary Dr Beus[2]	1 Jan.–31 Dec.	22,000	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 Incidental Services Earnings Regulation (*Bundesnebentätigkeitsverordnung*).

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

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

[1] Lump sum of EUR 1,000 net per meeting attended

[2] This amount is subject to the German Incidental Services 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 GmbH are also included in special criminal law protection insurance for employees that was established by KfW as a group insurance policy.

Frankfurt, 21 March 2014

Management Board **Board of Supervisory Directors**

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