Annual Report 2016

KFW IPEX-Bank

2016

Key figures

Volume of lending of the Export and Project Finance business sector

Volume of lending of the business sector[1] by sector department	2016
	EUR in billions
Maritime Industries	17.1
Power, Renewables and Water	14.3
Aviation and Rail	10.0
Basic Industries	9.7
Transport and Social Infrastructure (PPP)	7.3
Industries and Services	7.0
Financial Institutions, Trade and Commodity Finance	4.0
Total	**69.4**

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

KfW IPEX-Bank GmbH key figures

	2016	2015
	EUR in billions	EUR in billions
Balance sheet key figures		
Total assets	29.4	28.6
Volume of lending	34.9	35.7
Contingent liabilities	1.6	2.0
Irrevocable loan commitments	6.6	7.7
Assets held in trust	0.2	0.2
Volume of business (total assets, contingent liabilities and irrevocable loan commitments)	37.7	38.2
Equity	3.5	3.5
Equity ratio (in %)	11.8	12.2
Results	**EUR in millions**	**EUR in millions**
Operating income before risk provisions/valuations	284	350
Risk provisions and valuations	–164	–76
Profit transferred due to a profit pooling, profit transfer or partial profit transfer agreement	105	0
Net income	0	144
Result of the Export and Project Finance business sector (segment report, consolidated financial statements of KfW Group)	484	628
Number of employees (including Management Board)	**666**	**651**

››› Responsible banking

We are a specialist bank that has been in business for over 60 years. We have a wealth of experience, both in structuring financing and in the industries in which we operate. Our customers are German and European companies, and we support their projects, exports and investments – around the globe and largely as part of a consortium with other banks and institutions. We strive to set investment ideas in motion and to secure economic strength, employment and growth in Germany and Europe by helping these companies to remain competitive and go international. Financing the future.

Contents

Dear Readers,

2016 was a successful year for KfW IPEX-Bank. We disbursed new loans totalling EUR 16.1 billion, thus helping both existing and new customers to improve their market position, invest in the future and set ideas in motion. Following the exceptional year that was 2015, this commitment volume means that our lending business has now stabilised at the level experienced in previous years. Our contribution of EUR 484 million to KfW's consolidated earnings reaffirms our status as one of KfW Group's main sources of earnings. In the Export and Project Finance business sector, for which KfW IPEX-Bank is responsible, we once again made an active contribution to securing KfW's long-term promotional capacity.

The overall picture is that, as a specialist in export and project finance, we are well-positioned with our business model and can look confidently to the future – despite growing challenges on international markets.

Our greatest asset is our employees' high level of structuring expertise and industry experience. We would like to take this opportunity to thank our staff sincerely for all their hard work and personal commitment to our customers' needs and projects around the world over the past year.

All sector departments contributed to our positive business performance. The sector departments with the largest commitment volumes were Power, Renewables and Water (EUR 3.1 billion), Maritime Industries (EUR 2.4 billion) and Financial Institutions, Trade and

››› Helping German and European companies to compete by providing tailor-made financing: That is our contribution to securing German and European economic strength, employment and growth.

Klaus R. Michalak

Commodity Finance (EUR 2.1 billion). Our business activities continue to underline our aim not only to support the competitive position of the German and European economies, but also to make a significant contribution to the protection of the environment and climate. In 2016, we provided financing totalling EUR 2.2 billion for renewable energy projects and those with a significant and measurable positive impact on the climate and environment. This corresponds to 13.8 % of our total commitment volume. We therefore played an important role in achieving KfW Group's ambitious environmental and climate protection targets and demonstrated our commitment to improving ecological living conditions – both in Germany and throughout the world.

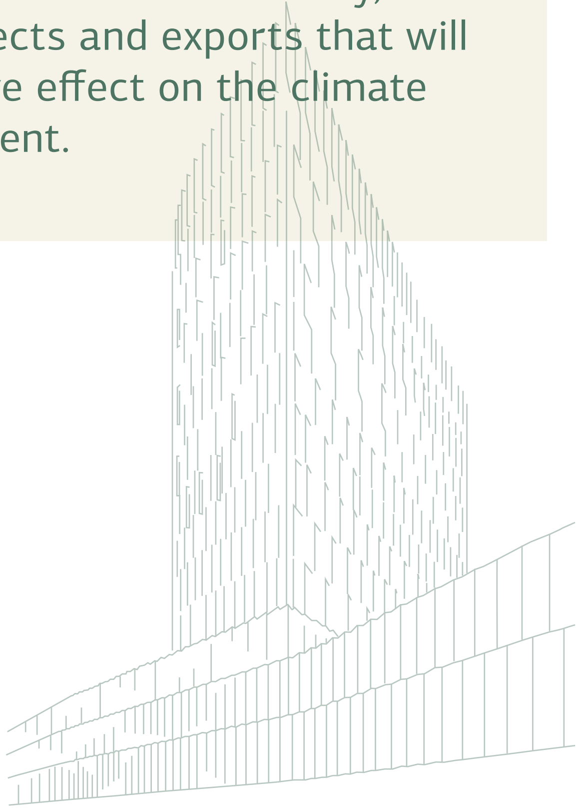
The high-volume project and export finance market has changed. Commercial banks from Europe, North America and Asia, but also banks from emerging economies, are creating growing competition. Institutional investors, still under major pressure to invest given the low interest rate environment, have also established themselves as key players on the international lending market. We have been successful in handling these market conditions for years.

In the reporting year, we consistently prioritised business quality, thereby creating a balanced risk/return ratio. We contributed our expertise to major financing projects and, more often than not, provided the required debt capital in collaboration with other market participants. Our financing partners may be other German or international banks, or they may equally be institutional investors or supranational development institutions. For us, what matters is working together to promote projects and sustainable investments for the benefit of all. That is

››› As a specialist financier, we constantly adapt our products and services to market needs and devise solutions that will provide our customers with the best possible support for their future export and investment projects.

Andreas Ufer

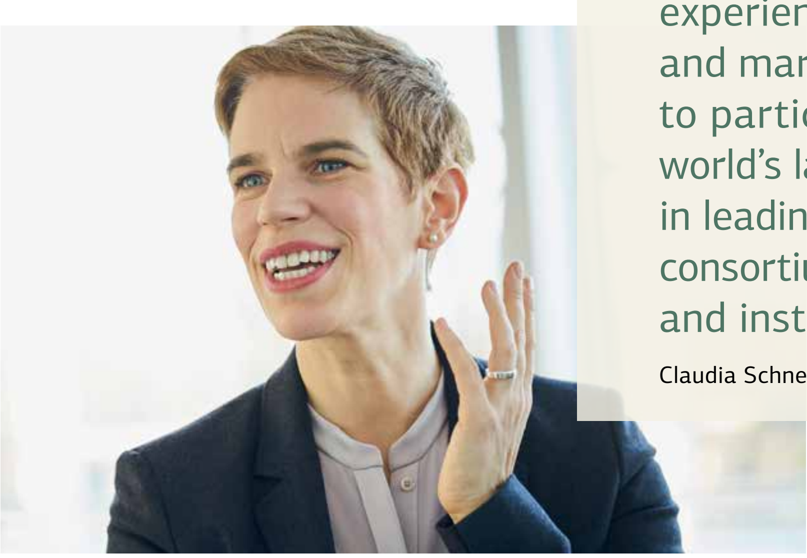
> ››› We provide financing in the interest of the German and European economies. In order to promote sustainability, we focus on projects and exports that will have a positive effect on the climate and environment.
>
> Markus Scheer



why we do not limit ourselves to providing loan funds. When it comes to complex finance transactions, our main assets are our structuring competence, our in-depth industry and market knowledge and our ECA expertise built up over many years. Our aim is to build on this close and trusting working relationship with our market partners and to play an active part in structuring tailor-made syndicate financing.

Despite current global political challenges, we still believe there are good market opportunities across all sector departments based on the predicted development of sales markets in industrialised and emerging countries. In regional terms, the focus will particularly be on growth markets that are important for the German and European economies. Together with industrialised countries, these primarily include emerging markets in Asia and Latin American countries.

In order to offer the best possible support to our customers, we maintain a presence in key economic and financial centres with a total of nine representative offices and a branch in London. By moderately expanding our network of foreign representative offices and selectively adding to our product portfolio, we hope to build on existing customer relationships and convince new customer groups of what we can achieve for them. Owing to growing competition and a portfolio management strategy still geared towards quality, our target for new commitments in the 2017 financial year is EUR 15.9 billion.



››› Our many years of structuring experience and in-depth industry and market knowledge allow us to participate in some of the world's largest financing projects – in leading roles and as a reliable consortium partner to other banks and institutions.

Claudia Schneider

With a view to the future, we have also reorganised our Management Board team: Christian K. Murach left the Management Board of KfW IPEX-Bank to begin his retirement in March 2017. As his colleagues on the Management Board, and on behalf of all employees at KfW IPEX-Bank, we would like to thank him for his outstanding contribution to the success of the company and wish him all the very best for the future.

Andreas Ufer is his successor as the member of the Management Board in charge of Markets II (transport sectors) and Treasury. Claudia Schneider – previously General Manager of KfW IPEX-Bank – has assumed Andreas Ufer's previous role as Chief Risk Officer (CRO). We are looking forward to working together in this new arrangement...

... and to everything the 2017 financial year brings.

Klaus R. Michalak

Christian K. Murach

Markus Scheer

Claudia Schneider

Andreas Ufer

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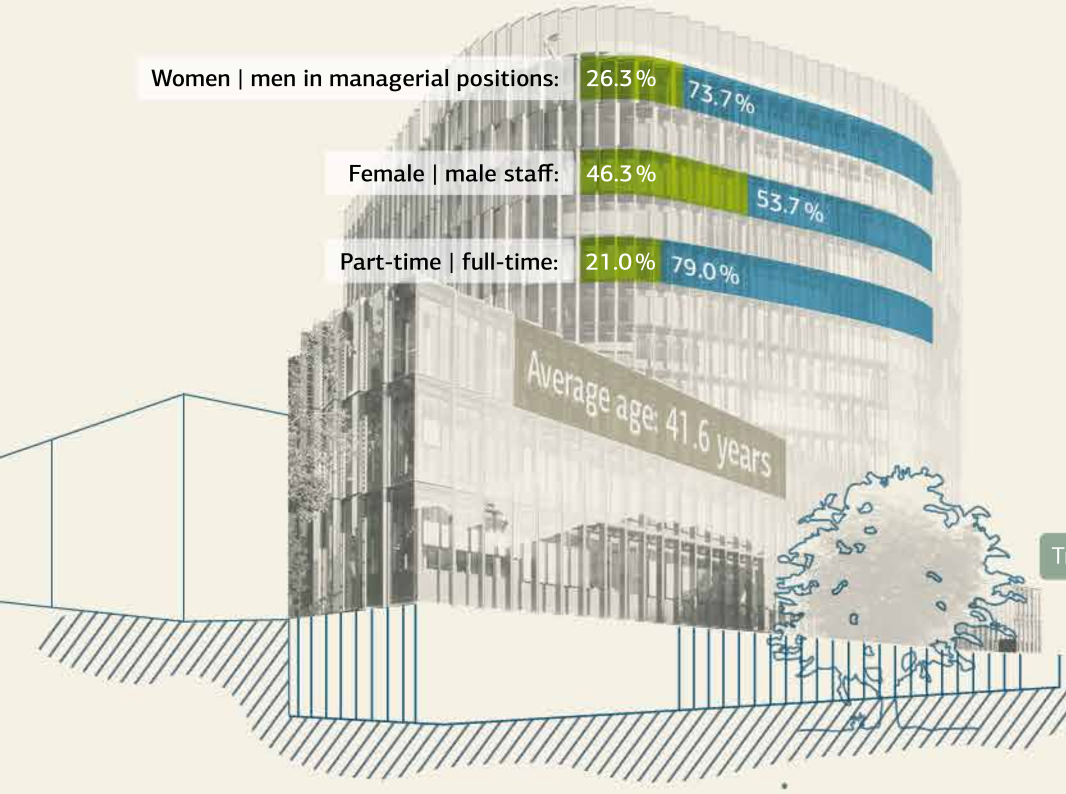
KfW IPEX-Bank at a glance



SECTORS

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666
EMPLOYEES

VOLUME OF LENDING IN 2016
EUR **69.4 BILLION**

REPRESENTED
WORLDWIDE

Close, constructive cooperation

Report of the Board of Supervisory Directors 2016

The Board of Supervisory Directors and the Management Board continued to cooperate closely in the 2016 financial year. The Board of Supervisory Directors was informed by the Management Board of all significant developments at KfW IPEX-Bank in a timely and comprehensive manner, and was satisfied of the due and proper conduct of business by the Management Board. The Board of Supervisory Directors was involved in decisions of major importance for the company at all times and granted its approval in relevant cases, where required, following extensive consultation and review. The Board of Supervisory Directors and the Management Board discussed the longer-term orientation of KfW IPEX-Bank at length in two workshops held outside ordinary meetings.

Meetings of the Board of Supervisory Directors

A total of four ordinary meetings were held in 2016. At each meeting, the Management Board reported on current business development, presented relevant risk and performance reports and the quarterly financial statements and discussed these intensively with the Board of Supervisory Directors.

The first meeting of the financial year held on 18 March 2016 focused on the 2015 annual financial statements. The Board of Supervisory Directors followed the recommendation of the Audit Committee and approved the audit results, the financial statements, including the management report, as well as the proposal regarding the appropriation of profit, and recommended that the shareholder approve the annual financial statements. Furthermore, the Board of Supervisory Directors passed resolutions on the awarding of the audit assignment for 2016 to KPMG AG Wirtschaftsprüfungsgesellschaft, on the 2015 Report of the Board of Supervisory Directors and on the 2015 Corporate Governance Report. The Board of Supervisory Directors recommended that the shareholder conclude the employment contract with Mr Markus Scheer as presented and reappoint him to the Management Board for a period of five years. It also confirmed the assessment of the Management Board's efficiency review without advising further action and recommended that the shareholder pay out the performance-based bonus components proposed for the 2015 financial year. In addition, the Board addressed the regulatory requirements of the Supervisory Review and Evaluation Process (SREP) as well as its applicability and implementation at KfW IPEX-Bank.

At its second meeting on 24 June 2016, the Board of Supervisory Directors discussed the framework for 2017 group business sector planning, confirmed that the Management Board uses appropriate principles for selecting and appointing individuals to senior management and recommended that the shareholder conclude the employment contract with Mr Klaus R. Michalak as presented and reappoint him as CEO for a period of five years. At this meeting, the Board of Supervisory Directors also discussed KfW IPEX-Bank's official classification as an institution posing a potential systemic risk (*potenziell systemgefährdendes Institut – PSI*) by the supervisory authorities. It also considered the formation of a Risk Committee and acknowledged the results of the annual employee survey and the annual compliance report.

At the meeting on 30 September 2016, the risk situation and risk-bearing capacity of KfW IPEX-Bank were discussed in depth. The Board of Supervisory Directors took the decision to form a Risk Committee, appointed its members and approved a corresponding amendment to the company's rules and regulations. It endorsed the Audit Committee's recommendation regarding the establishment of additional audit priorities for the audit of the 2016 annual financial statements and approved the engagement of Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft as auditor for 2017. The Board of Supervisory Directors was informed of the supervisory authorities' decision regarding the SREP and the effects this will have on capital ratios. Planned changes to the German Remuneration Ordinance for Institutions (*Institutsvergütungsverordnung – IVV*) were also presented to the Board of Supervisory Directors.

At the final meeting of the financial year, held on 2 December 2016, the Board of Supervisory Directors recommended that the shareholder appoint Ms Claudia Schneider to the Management Board with effect from 17 March 2017. It also discussed the remuneration strategy and concluded that the remuneration systems are geared towards achieving the goals set out in KfW IPEX-Bank GmbH's business and risk strategy. Furthermore, the Board of Supervisory Directors confirmed that the incentives established by the remuneration system take due account of the company's risk, capital and liquidity structure and the likelihood and timing of earnings. It confirmed the assessment of the efficiency review of the Board of Supervisory Directors for 2016 without recommending further action. The Board of Supervisory Directors also recommended that the shareholder pass a resolution on the previously discussed targets agreed with the Management Board for 2017. At this meeting, the Management Board and the Board of Supervisory Directors also discussed the recovery plan to be submitted to the supervisory authorities for the first time.

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

Mr Bernd Loewen left the Board of Supervisory Directors on 20 March 2016. Dr Stefan Peiß took over his position on 21 March 2016.

On the employee representatives' side, Mr Ulrich Goretzki left the Board of Supervisory Directors on 31 July 2016. Mr Norbert Gasten, elected to replace him, assumed his position on 1 August 2016. Mr Johannes Geismann stepped down from the Board of Supervisory Directors on 20 October 2016. He was succeeded by Dr Ludger Schuknecht on 3 November 2016.

Work in the committees of the Board of Supervisory Directors

The Audit Committee, Loan Committee, Executive Committee, Remuneration Control Committee and, from December 2016, the newly established Risk Committee, fulfilled their designated tasks during the financial year in line with the rules and regulations of KfW IPEX-Bank. The work of the committees was reported regularly and in detail in subsequent plenary sessions and recommendations were made where appropriate.

The Audit Committee held five meetings, where it dealt with the ICS in its entirety and the regular reports of the Internal Auditing department, as well as discussing the interim financial statements and (up to September) the risk situation. The committee discussed the auditor's reports at length and recommended that the Board of Supervisory Directors approve the 2015 annual financial statements. The Audit Committee also regularly addressed current developments in the field of compliance and was informed of regulatory audits performed during the financial year and preparations being made for the transition to IFRS 9.

The Loan Committee met eleven times during the reporting year. Due to disclosed conflicts of interest regarding four lending decisions, the member concerned in each case abstained from voting.

The Executive Committee held four meetings, where it discussed amendments to the employment contracts of members of the Management Board as well as appointments and reappointments to the Management Board. The committee also addressed the efficiency reviews of the Board of Supervisory Directors and Management Board, as well as the principles used for selecting individuals to serve as senior managers and the outcome of the succession management process.

The Remuneration Control Committee monitored the remuneration systems for members of the Management Board and employees to ensure that they were appropriate and examined the compatibility of these systems with the corporate strategy geared towards the company's sustainable development. The committee met on four occasions. One of the meetings was held via conference call.

The Risk Committee is responsible for handling risk-related matters. In particular, it advises the Board of Supervisory Directors on issues relating to risk tolerance and risk strategy. The committee was formed in September and met in December for an intensive discussion of its purpose and the tasks and recurring issues this will involve.

Audit of the annual financial statements

Following a final review by the Board of Supervisory Directors of the annual financial statements and the management report, the Board approved the audit result, the annual financial statements and the management report at its first ordinary meeting on 22 March 2017 with no objections, and recommended that the general shareholders' meeting approve the annual financial statements.

The discussion centred on partial audit report II of KPMG AG Wirtschaftsprüfungsgesellschaft, covering the audit of the annual financial statements as of 31 December 2016 that were prepared by the Management Board as of 14 February 2017, and of the management report for the 2016 financial year. KPMG issued an unqualified audit opinion on 28 February 2017.

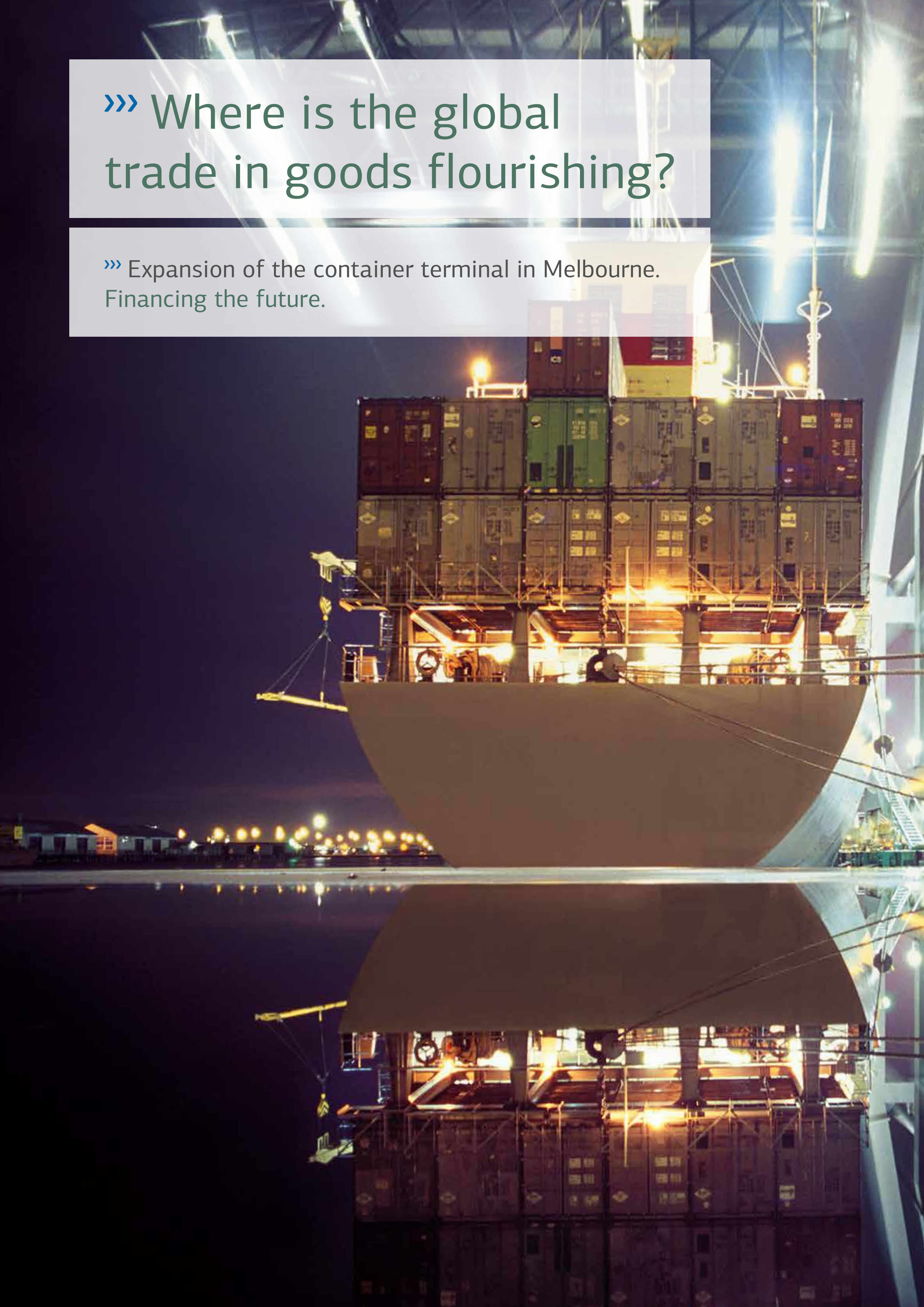
The Board of Supervisory Directors would like to thank the Management Board, all employees and Mr Loewen, Mr Goretzki and Mr Geisman, all of whom left the Board this year, for their commitment, hard work and achievements during the 2016 financial year.

Frankfurt am Main, 22 March 2017
On behalf of the Board of Supervisory Directors

Dr Norbert Kloppenburg
Chairman of the Board of Supervisory Directors

Where is the global trade in goods flourishing?

Expansion of the container terminal in Melbourne.
Financing the future.



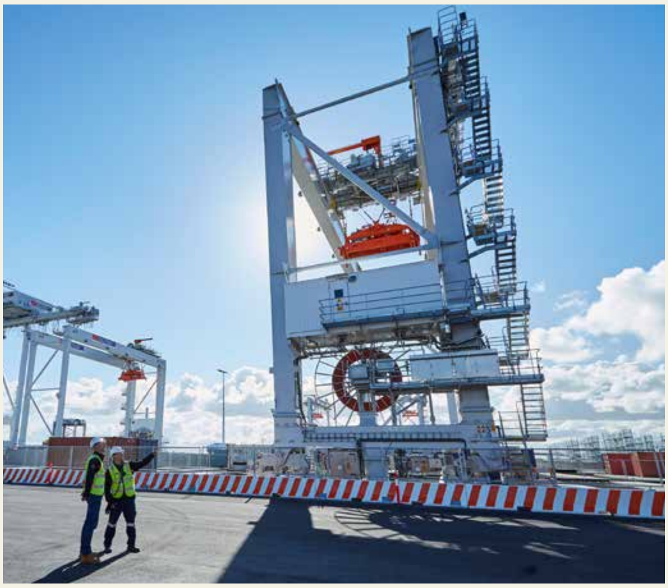
››› Focused on the future: Port of Melbourne expansion

As global trade increases, so too do the expectations surrounding service quality at seaports. This calls for intelligent logistics. The Port of Melbourne, which already processes more than 36 % of Australia's container traffic, requires yet more capacity for international goods trade. A new terminal – the Victoria International Container Terminal – is being built to satisfy growing demand for cargo handling.

This new terminal, which can only be built outside the port basin due to geographical constraints, will not only be equipped to accommodate larger container ships. Thanks to its special empty-container storage facilities and fully automated operation, it will also offer faster, improved service and reduced transhipment times.

KfW IPEX-Bank is providing project financing for the construction of the new container terminal amounting to the equivalent of EUR 270 million as part of a consortium with six other international banks. This long-term loan will support European exporters like Finland's Cargotec Group, which is supplying state-of-the-art, fully automated crane systems and software solutions for the project. The financing tranche used for this purpose is backed by export credit insurance provided by the Finnish ECA, Finnvera.

Helping to develop global infrastructure: Once complete, the terminal will be able to handle up to 1.1 million TEU a year.



Export industry as guarantor of jobs and prosperity

Germany is one of the world's most renowned industrial locations and a leading export nation. Much of its economic strength comes from the performance of German companies – especially their ability to innovate. What sets the German industrial landscape apart is a balanced mix of global corporations and well-established mid-sized companies which are also extremely successful on the international stage – in fact, many of these 'hidden champions' are world market leaders in their specific field. A thriving export industry is therefore an important guarantor of jobs and prosperity.

Financing for the benefit of industry and society

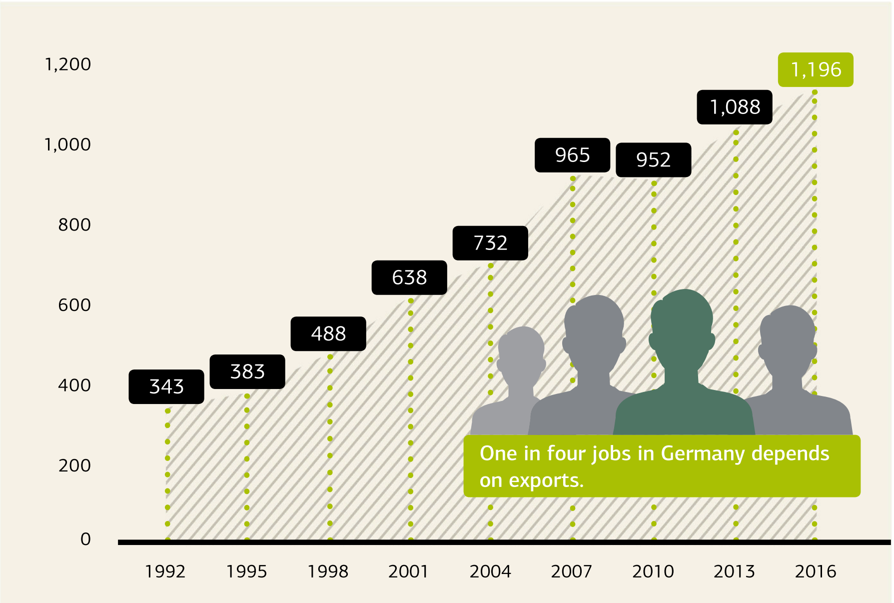
Businesses have been benefiting from KfW IPEX-Bank's extensive experience in project, export, investment and acquisition finance in key industries for more than 60 years. Supporting the German and European export industry is derived from KfW's statutory mission – a mission which KfW IPEX-Bank, a legally independent group company, is responsible for fulfilling. By providing effective financing – primarily as part of a consortium with other banks – KfW IPEX-Bank plays a key role in helping German and European companies to remain competitive and operate on an international scale, thereby securing economic strength, employment and growth.

Structuring medium and long-term financing for key industrial sectors, for economic and social infrastructure projects and for projects aimed at protecting the climate and environment is at the core of the bank's activities. Beyond traditional export business, it also supports research and development projects, for instance. These projects help German and European companies to retain and build on their technological leadership – an absolute must if they are to continue to compete at international level.

A product portfolio that can stand the test of time

As an effective project and export financier, KfW IPEX-Bank constantly adapts its products and services to market needs and develops solutions that will provide German and European export and investment projects with the best possible support in the future. Engineers and experts in specific disciplines are involved in the lending process alongside financing experts specialising in particular industries, in order to underpin the process from a technical perspective. Tools to promote foreign trade such as Hermes cover and other ECA guarantees are also specifically applied to projects. These provide security and offer better terms and conditions for the customer.

Development of exports of German goods (EUR in billions)



Source: Federal Statistical Office (*Statistisches Bundesamt*): Foreign trade, www-genesis.destatis.de

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

Its structuring expertise makes KfW IPEX-Bank both a reliable financing partner to its customers and a dependable consortium partner to other banks and institutions.

Companies therefore benefit from a financing partner that can offer a high level of structuring expertise and a product portfolio ideally tailored to their needs.

Advisor to policymakers and organisations

As a specialist in export and project finance with many years' experience of working with tools to promote foreign trade, KfW IPEX-Bank advises political decision-makers and international organisations. Policymakers, industry and financial sector partners are working together to develop and improve the framework conditions for German and European exporters. The aim is to make it possible to calculate the risks involved in global commerce for businesses and to facilitate the provision of export finance that would not be feasible without additional guarantees. This includes, for example, federal export credit guarantees provided by Euler Hermes.

ECA cover for the financing of large, complex projects is particularly important to international banking consortia, as these guarantees can help solve problems of scarcity when capital and risk limits are in place. Owing to well-structured, all-round solutions with integrated ECA cover, exporters benefit from improved chances of securing deals, while borrowers benefit in turn from more favourable terms and conditions and longer tenors.

Working together to drive projects forward

KfW IPEX-Bank does not work alone in the majority of cases. Instead, it provides the large volumes of debt capital required in collaboration with other market participants. Its consortium partners may be other German or international banks, or they may equally be institutional investors or supranational development institutions.

This is also the case for the financing of the new container terminal at the Port of Melbourne in Australia. KfW IPEX-Bank joined forces with six other international banks to provide project financing amounting to the equivalent of EUR 270 million. The aim of KfW IPEX-Bank's involvement is not only to support the expansion of transport infrastructure, but also the supply of European goods and services. The project owner, International Container Terminal Services Inc. (ICTSI) based in the Philippines, is using some of the syndicated loan to purchase state-of-the-art, fully automated crane systems and software solutions from the Finnish Cargotec Group.

Mobility – bringing things together

KfW IPEX-Bank is also a sought-after specialist financier in the aviation industry due to its many years of experience in the sector and wealth of knowledge about the specific risks involved. The bank's goal in this industry is to facilitate and increase mobility between markets and people in order to boost employment, global trade and growth. Investments made by airlines in modern, fuel-efficient aircraft and engines step up growth and reduce environmental impact in equal measure, as they enable flight operations that are both economical and fuel-efficient.

One such example is the financing of three A350s and one A320neo from Europe's largest aircraft manufacturer, Airbus, for LATAM Airlines. Together with BNP Paribas, Development Bank of Japan, Landesbank Hessen-Thüringen and Sumitomo Mitsui Banking Corporation (SMBC), KfW IPEX-Bank was mandated as senior lender, together with Investec Bank as junior lender, to finance the purchase of the new, environmentally-friendly aircraft models as part of a 12-year commercial credit facility for the South American airline. This makes LATAM Airlines the first airline in South America to acquire the new A320neo, one of the most efficient and modern aircraft types in the world.

The total volume of exports passed the trillion mark years ago. The Federal Government also supports German exports – for example, through guarantees provided by the export credit insurer Euler Hermes Deutschland, which has a mandate to carry out this task. 'These are an important building block in the area of export finance,' said Dr Nadja Marschhausen, Head of Structuring Advisory at KfW IPEX-Bank, speaking in an interview.

Germany is often described as a world-champion exporter. What do exporters need to remain competitive in the long term?
As long as Germany retains its technological edge and leadership in terms of quality, these will remain good selling points for its export industry. However, it is also important to complement these advantages with appropriate financing instruments such as CIRR loans (Commercial Interest Reference Rate) and other sources of funding, especially in the case of projects in high-risk countries without functioning finance markets. ECA (export credit agency) cover is an effective tool to promote exports. In Germany, the insurer Euler Hermes has a mandate from the Federal Government to provide such cover.

How does ECA cover work?
ECA cover is a tool to promote foreign trade. It is a form of state insurance which provides banks with cover for borrower default: If a borrower fails to keep up with its payments to the bank, the ECA insurance steps in. In the event of default, the bank pays a deductible, which is normally 5% of the loan amount.

What is the benefit for exporters?
It is easier for them to sell their products, since the foreign buyer normally needs debt capital to purchase goods and services. Banks often only provide this with an appropriate level of cover. Especially in the case of exports to countries where access to financing is difficult, the export financing sometimes only comes about when ECA cover is provided.

What opportunities are there for small and mid-sized companies – can they benefit from Hermes cover, too?
SMEs can use the entire range of Hermes products just like large exporters do. According to Euler Hermes, three out of every four insurance applications come from small companies. That's 30,000 applications a year in total. In many cases, this involves smaller transactions with short payment terms, but SMEs are also often involved in large projects as a subcontractor. In any case, small-scale order values that are eligible for cover require further development. The aim must be to create reproducible financing structures that are in line with costs.

What do you believe are the current trends in export credit finance?
In the international marketplace, the export economy defines the spirit and pace of export finance. Exporters and banks are faced with the fact that more and more growth markets and business potential are to be found in high-risk countries. According to Euler Hermes, the share of new cover in developing and emerging countries is continually on the rise. The increase in cover options for selected countries in Sub-Sahara Africa and the re-establishment of cover options for Argentina are both welcome examples of this. It is particularly important here to check carefully whether the risks involved are acceptable. In addition to the growing significance of international value chains and the trend towards global sourcing of components and supplies for large projects and facilities, we are also witnessing rising demand for financing backed by cover from multiple ECAs at the same time (referred to as 'multisourcing') and 'shopping lines', prompting the respective export credit agencies to increase cooperation and align their general terms and conditions.

››› How can we place the energy transition on a firm footing?

››› Construction of Dudgeon Offshore Wind Farm.
Financing the future.

››› Climate-neutral energy for the United Kingdom

All of the measures in place today to protect the climate and the environment help to ensure sustainable living and secure livelihoods for future generations. Generating energy from renewable sources is an essential part of this – and therefore a segment that KfW IPEX-Bank focuses on. By supporting German and European projects and exports, KfW IPEX-Bank makes an important contribution to reaching national and international sustainable development goals.

With an estimated 1.7 TWh of electricity generated annually, the Dudgeon Offshore Wind Farm – to cite one example – will be able to supply up to 410,000 UK households with green energy once it is completed in 2017. The 402 MW farm, located 32 km off the coast of North Norfolk in East England, is comprised of 67 installed Siemens wind turbines, making it one of the world's largest in the offshore area.

The financial prerequisites for the investment are being handled by KfW IPEX-Bank, which is Mandated Lead Arranger for the transaction and is financing the project together with eight other international banks. The bank consortium is providing Dudgeon with GBP 1.3 billion in long-term debt capital.

Helping to achieve global climate protection targets: Sixty-seven wind turbines, manufactured by Siemens and covering an area of around 55 km^2, will produce green electricity out at sea.

Environmental and climate protection preserves quality of life – and creates jobs

Promoting energy efficiency and expanding the use of renewable energies are key elements of the Federal Government's energy policy strategy. As an expert and leading financier in this area, KfW IPEX-Bank is committed to helping it achieve these measures. Apart from sustainability aspects, this is also relevant for the economy. The world market volume for environmental and efficiency technologies stands at EUR 2.5 trillion and is set to at least double by 2025 based on current estimates. According to figures from the Federal Ministry for the Environment, Nature Conservation, Building and Nuclear Safety (*Bundesministerium für Umwelt, Naturschutz, Bau und Reaktorsicherheit – BMUB*), companies operating in the fields of environmental technology and resource efficiency already account for around 1.5 million German jobs. Germany therefore plays a leading role in international climate policy.

In order to retain this innovative edge, intensive efforts are needed to develop, manufacture and deploy sophisticated solutions. Financing provided by KfW IPEX-Bank supports the use of cutting-edge technologies and makes an essential contribution towards ensuring that German and European production capacities are fully utilised.

Expanding the use of renewable energies

Renewable energies contributed towards a reduction in CO_2 equivalents of over 167.5 million tonnes in Germany in 2015. As a result of their expansion, renewable energies made up the largest share (32.6 %) of gross electricity consumption. Wind energy (45 %) was well ahead of biomass electricity (22 %) and photovoltaic systems (20 %).

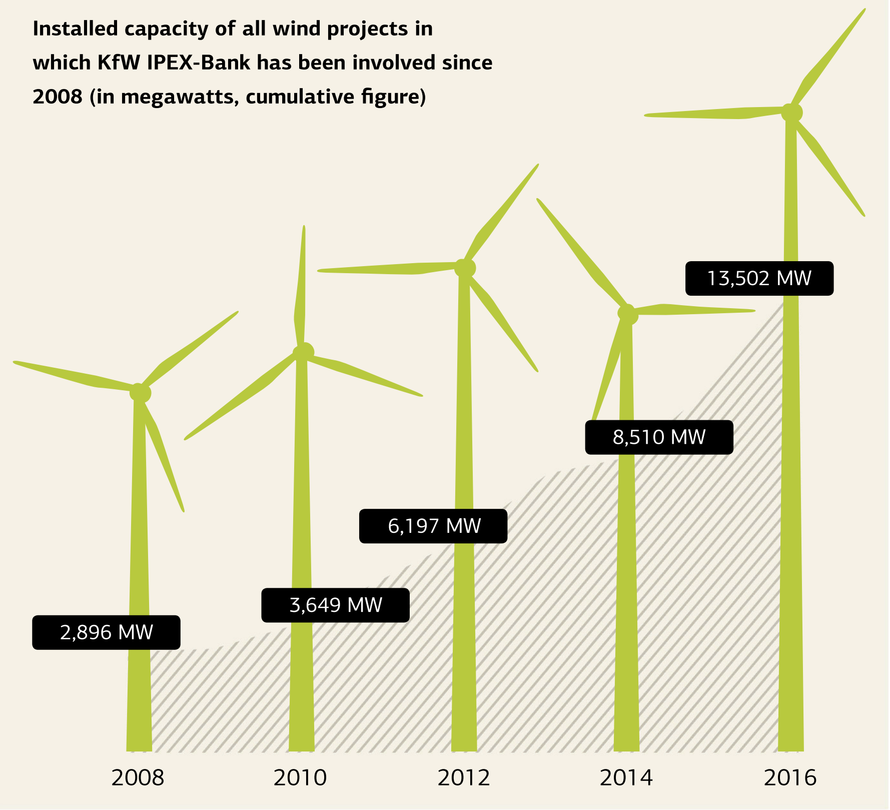
KfW IPEX-Bank worked hard to promote the emerging wind energy industry from an early stage and was one of the pioneers in financing offshore wind farms. Thanks to its technological expertise and in-depth sector knowledge that it has built up over the years, KfW IPEX-Bank is a respected partner to the German and European wind industry, which implements projects all around the globe.

More energy from the sea

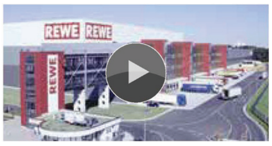
Experts estimate that, due to strong, constant winds out at sea, the energy yield of offshore wind turbines is 40 % greater than that on land. Up to mid-2016, a total of 835 offshore wind turbines off the Baltic and North Sea

Pioneer in wind energy financing

Installed capacity of all wind projects in which KfW IPEX-Bank has been involved since 2008 (in megawatts, cumulative figure)



››› REWE logistics centre project film
Designed to green standards, efficient and financed by KfW IPEX-Bank: One of Germany's most advanced logistics centres, employing around 500 staff in a state-of-the-art workplace. The stage is set:



coasts with an installed capacity of approximately 3,500 megawatts fed energy into the German power grid. That represents a 15 % increase compared to the first six months of 2015. The contribution made by offshore wind farms to the supply of energy – and to the success of the energy transition – will continue to grow steadily in the future.

One example is the Merkur wind farm project in the North Sea, which KfW IPEX-Bank is supporting in its role as technical bank as part of an international consortium of banks. The wind farm is being constructed around 45 kilometres north of the island of Borkum at a water depth of approximately 30 metres. The facility will consist of 66 Haliade 150-6MW wind turbines produced by GE in Saint-Nazaire in France. With a total installed capacity of 396 megawatts, the North Sea wind farm is expected to supply some 500,000 households with clean electricity once it has been commissioned in 2019.

KfW IPEX-Bank's parent company, KfW, has also contributed over EUR 360 million from its Offshore Wind Energy Programme to help finance the project.

Onshore wind farms on the up

KfW IPEX-Bank is also providing financing to support the construction and operation of leading-edge onshore wind turbines. One example is the Peralta wind farm in Uruguay, for which KfW IPEX-Bank structured the project financing. The USD 160 million loan is guaranteed in part by Hermes cover. Helaba is also contributing financing for the project, which will help the South American country to expand its use of renewable energies. Uruguay has set itself ambitious goals; it intends to generate 38 % of total domestic electricity production from wind energy by as early as 2017 – this figure stood at just 13 % in mid-2015.

The German wind turbine manufacturer ENERCON is the exporter supplying the project. The company based in Aurich in Lower Saxony is involved in the Peralta project as investor, turbine supplier and general contractor. It will also provide long-term servicing for the turbines for over 15 years. The wind farm's projected annual capacity of 300 gigawatt hours will be enough to supply around 150,000 typical Uruguayan households with green energy.

Improving carbon footprints

KfW IPEX-Bank is financing the highly-efficient Beni Suef, Burullus and New Capital combined cycle power plants in Egypt, three of the most state-of-the-art thermal plants in the world. The German exporter Siemens is building turnkey combined cycle power plants with a total capacity of 14.4 gigawatts in a consortium with local Egyptian partners. The plants are located at three different locations throughout the country. The core component of the natural gas-fired installations will be a total of 24 latest-generation Siemens gas turbines. The H-class, as it is known, is a maximum-efficiency turbine, thus providing an energy supply that is not only reliable but also greener.

Together with two other banks, KfW IPEX-Bank is acting as Coordin-

››› Prof. Dr-Ing. Stephan Reimelt,
President and CEO of GE in Germany and Austria

››› For our global activities in the field of renewable energies we need reliable financing partners like KfW IPEX-Bank that understand our business and have proven technological expertise.

With its structured loans, KfW IPEX-Bank is an important factor in the success of the projects GE carries out in partnership with the bank – also in a challenging market environment.

ating Initial Mandated Lead Arranger (CIMLA) for the transaction. The consortium of 17 international banks has raised EUR 3.5 billion in debt capital. Following their scheduled completion in 2018, the new combined cycle power plants are expected to double Egypt's electricity production and make a significant contribution to the country's economic development.

Fewer emissions owing to environmentally-friendly vehicles

Following a period of stagnation, total emissions in the transport sector have been rising again since 2012. Road haulage is responsible for a particularly large share of this increase due to growing traffic volumes. In light of this, KfW IPEX-Bank has provided the Norwegian dairy cooperative TINE with a loan of EUR 50 million to gradually convert its vehicle fleet to environmentally-friendly trucks manufactured by Mercedes and Scania. The new vehicles comply with the Euro 6 standard. This will enable the association, comprising some 12,000 dairy farmers from across Norway, to achieve significant savings in its total emissions of nitrogen oxides and particulate pollution, as well as in its CO_2 emissions. Beyond converting the fleet, a portion of the loan paid out in Norwegian kroner will be used to develop new products and optimise production processes, and is an investment in the cooperative's future sustainability.

Commitment to environmental and social responsibility

For KfW IPEX-Bank, social impact plays a vital role when financing projects and exports, as does ensuring that they will have a positive effect on the climate and environment. The bank therefore follows the Equator Principles of the Equator Principles Financial Institutions (EPFIs), the International Finance Corporation Performance Standards (IFC PS), the Environmental, Health, and Safety (EHS) Guidelines of the World Bank Group and the OECD's Common Approaches as applicable. KfW IPEX-Bank's own Sustainability Guideline goes beyond these global regulations. The bank also conducts extensive appraisals for all other financing products to ensure the conduct of its borrowers is environmentally and socially sound.

2016 awards for outstanding financing transactions

Financings in which KfW IPEX-Bank is involved, sometimes in a leading role, are regularly awarded 'Deal of the Year' status by internationally relevant specialist publications. These awards are impressive proof of the bank's global excellence in structuring complex project and export finance transactions – and are testament to its performance.

One transaction which won over the juries at Trade Finance Magazine and Project Finance International (PFI) magazine was the financing provided for the major Liwa Plastics LLC petrochemical project in Oman, in which KfW IPEX-Bank contributed a loan of USD 179 million.

The PPP financing for the highly efficient Facility D combined cycle power plant with a connected desalination plant in Qatar and the financing of Chile's key Transmisora Eléctrica del Norte (TEN) power grid expansion also received accolades from PFI magazine. The latter also received a 'Deal of the Year' award at the IJGlobal Americas Awards 2016.

The Southwest Calgary Ring Road project in Canada, in which KfW IPEX-Bank is involved as part of a PPP financing structure, received a special award which attracted a great deal of media interest. The Canadian Council for Public-Private Partnerships (CCPPP) presented the project with the Gold Medal Award for Financing, primarily in recognition of its innovative financing structure.

In mid-year, KfW IPEX-Bank reaped an extraordinary success when leading exporters selected it as the best bank for their business, earning the bank the Exporters' Choice Award 2016. The Market Feedback Survey organised by the London-based specialist information service Trade & Export Finance (TXF) together with Clevis Research in Munich acknowledged in particular the bank's achievements in the categories of flexibility, understanding of business, speed and quality of execution.

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

PFI AWARDS 2016

IJGlobal Awards 2016

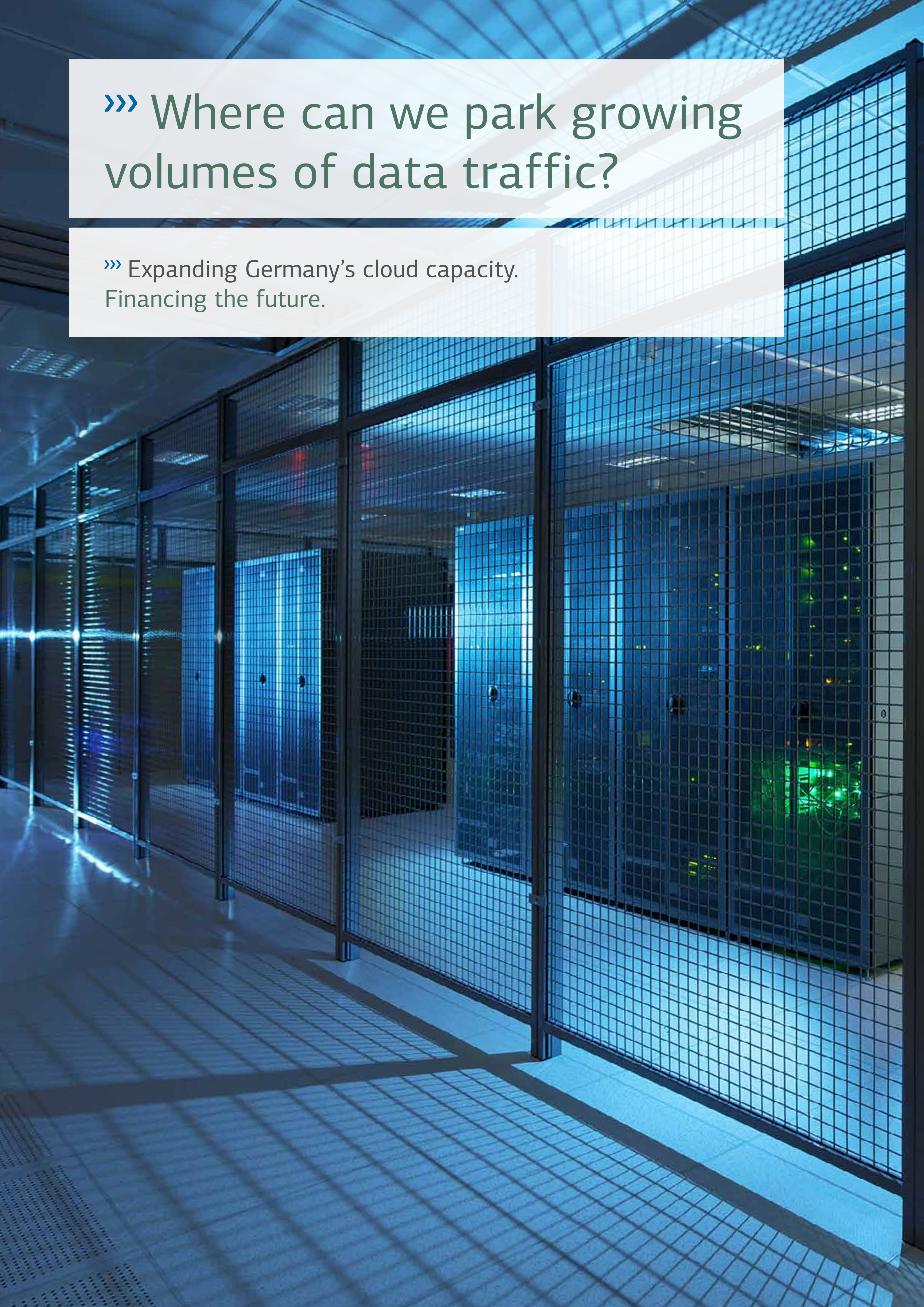
Global Transport Finance 2016
GTF AWARDS WINNER

NATIONAL AWARDS FOR INNOVATION & EXCELLENCE

EXPORTERS' CHOICE AWARD 2016

››› Where can we park growing volumes of data traffic?

››› Expanding Germany's cloud capacity.
Financing the future.



Green data centre: The beating heart of digitalisation

In view of the growing importance of digitalisation in all areas of the economy and society, the volume of data traffic is predicted to rise sharply in the coming years. Germany's largest and top-performance data centre run by T-Systems in Biere in Saxony-Anhalt shows just how high the demand in Germany and elsewhere for reliable and secure storage capacity has already become. Biere 1, consisting of 30,000 servers, was only completed in 2014 and is already running at 70 % capacity.

In order to meet the needs of companies and organisations for secure and dependable cloud services, KfW IPEX-Bank is financing the further expansion of the data centre together with BayernLB and Landesbank Baden-Württemberg with a loan in the triple-digit million euro range. Following the completion of Biere 2 scheduled for 2018, the data centre will house a further 45,000 servers with storage capacity of 150 petabytes covering an IT area of 9,000 m^2. As well as providing data security, the project will also fulfil the most stringent requirements in terms of implementing energy efficiency measures. This has enabled funds from KfW's Energy Efficiency Programme to be incorporated in the complex financing arrangement, which is similar in structure to a leasing agreement and will be managed in close collaboration with Hannover Leasing.

Helping to expand digital infrastructure: The construction of three further data centre modules at the Biere site will increase its cloud capacity by 150 %.

Infrastructure is the backbone of modern society

A high level of investment is required to meet the world population's growing need for the exchange of data, mobility and international flows of goods and services. Effective, and above all future-proof, structures need to be retained, developed and expanded. KfW IPEX-Bank is involved in projects to finance road, rail, energy and data networks and investments in energy-efficient means of transport such as rail vehicles, ships and aircraft. Central transport hubs such as airports and seaports, and, in the social sphere, hospitals, schools and administrative buildings, also help to ensure mobility and a secure supply of goods and services to the population. They are a vital prerequisite for future growth, employment and quality of life for people both in Germany and throughout the world.

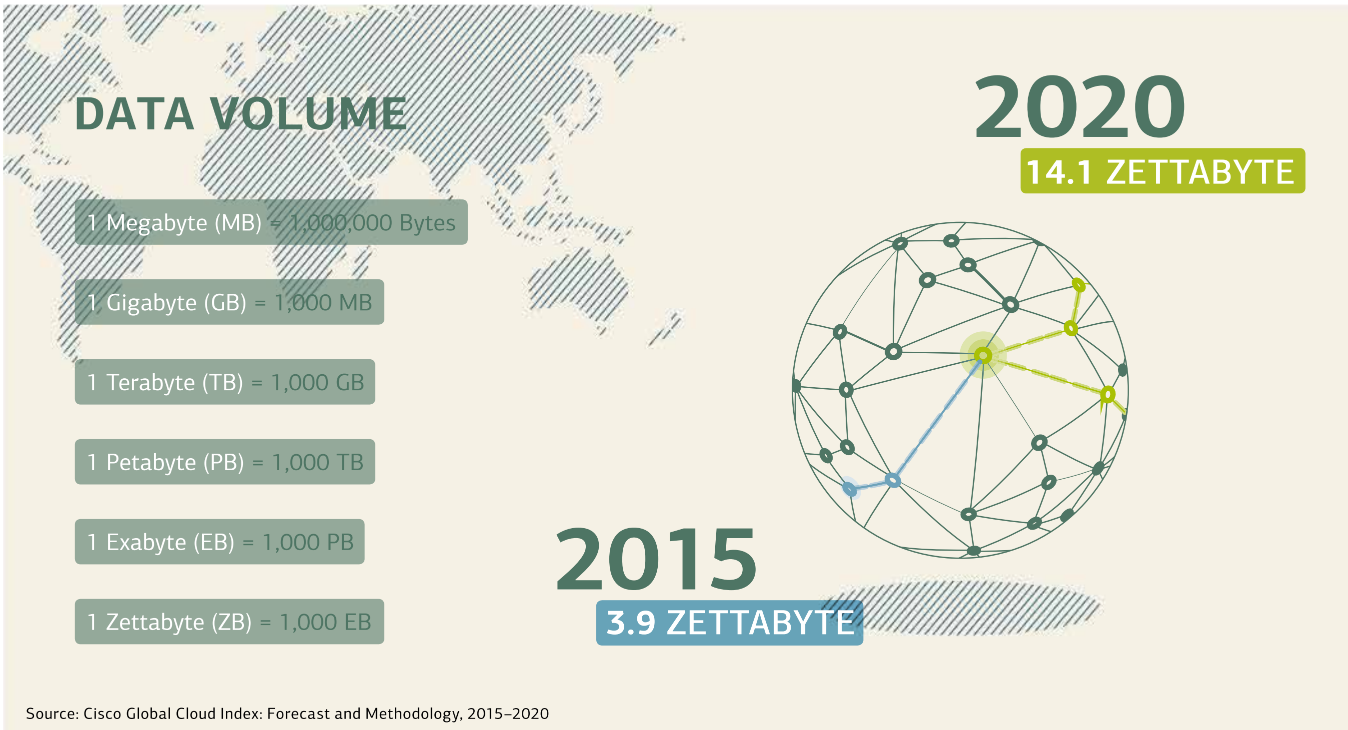
Urbanisation calls for sustainable mobility

As urbanisation rapidly advances, there is also a growing need for efficient mobility solutions for people living in urban agglomerations. For example, incentivising people to travel by rail takes the pressure off city centres and reduces emissions, thereby increasing efficiency and climate protection. On the basis of its worldwide commitment as a specialist financier, KfW IPEX-Bank contributes towards the development of sustainable forms of mobility, while at the same time boosting global sales of German and European vehicle technology.

European supplies and services for Australia

As part of a club deal arranged with five other international banks, KfW IPEX-Bank has enabled the financing needed to expand the "Gold Coast Rapid Transit" light

Explosive growth in data traffic forecast in all areas of the economy



Source: Cisco Global Cloud Index: Forecast and Methodology, 2015–2020 rail system in Queensland on Australia's eastern coast. The expansion of the line, which has been in operation since 2014, by another 7.3 rail kilometres and the addition of three stops and 1,400 parking spaces, was commissioned by the Government of Queensland and constitutes an important milestone in the city's efforts to upgrade its local public transport system ahead of the 2018 Commonwealth Games. The signalling technology and rolling stock installed along the route is being supplied by Bombardier Transportation in France and has been designed especially with the Australian project in mind: It will be the world's first light rail line with luggage racks adapted to accommodate surf boards. In a joint venture with the Australian company Downer EDI, French local transport operator Keolis will continue to operate the light rail system.

Motorway financing provided by consortium of banks

People and companies in Germany benefit from one of the best and most efficient transport networks worldwide. However, a high level of investment is constantly required in order to maintain and expand these transport routes, which represent an essential basis for ensuring growth, employment, prosperity and quality of life. Here, public-private partnerships (PPPs) are gaining ground as an alternative and transparent means of procurement. This instrument is used to harness the liquidity of private investors to best effect in order to renew and expand public infrastructure, as demonstrated by the construction of new sections of motorway on the A94 in Bavaria and the A6 in Baden-Württemberg.

Both these PPP projects called on KfW IPEX-Bank's financing and consulting expertise in 2016. In each case, the bank contributed debt capital as part of a consortium of commercial banks and in cooperation with the European Investment Bank (EIB). By providing this type of financing, KfW IPEX-Bank is underscoring its commitment to private-sector infrastructure projects and helping to promote modernisation and new construction projects that will have a large impact on, and greatly benefit, the economy, society and the environment.

››› **Dr Stefan Mair, Member of the Executive Board, The Federation of German Industries (*Bundesverband der Deutschen Industrie e.V. – BDI*)**

››› German companies are global technological leaders in many areas. Specialist financiers like KfW IPEX-Bank help to turn this competitive edge into real business – thereby securing these companies' global market standing, jobs and future sustainability.

››› How do you land a success story?

››› RwandAir adds wide-body aircraft to its fleet.
Financing the future.

››› KfW IPEX-Bank finances two wide-body Airbus aircraft for RwandAir

KfW IPEX-Bank has financed the purchase of two wide-body Airbus airlines for the Rwandan airline RwandAir. The bank extended the loan to Trade and Development Bank (formerly Eastern and Southern African Trade and Development Bank – PTA Bank), a supranational financial institution that has, in turn, channelled the funds as debt capital to RwandAir. It is KfW IPEX-Bank's first aircraft financing package in this specific structure (known as on-lending).

The transactions are also a first for RwandAir; these are the first wide-body aircraft to be added to the Kigali-based airline's fleet. RwandAir is also the first East African airline to operate an airplane from the A330 family. Airbus delivered the A330-200 in Toulouse in the south of France at the end of September, while the A330-300 was delivered at the end of November. The planes seat 244 and 274 passengers respectively and are used on scheduled flights to Dubai, London, New York, Mumbai and within Africa.

Established in 1985, PTA Bank is a multilateral financial institution based on an intergovernmental agreement. Its objective is to provide capital and services to promote economic development in eastern and southern Africa. It provides investors with the opportunity to gain exposure to fast-growing economies through a highly profitable development finance institution (DFI) with a sound balance sheet and good future prospects.

Supporting European exports: With a large number of international 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.

Competent partner in export and project finance

As a specialist financier, KfW IPEX-Bank is responsible for the Export and Project Finance business sector within KfW Group. Its mission as a legally independent group subsidiary is to provide financing in the interests of the German and European economies and to assist the endeavours of German and European companies on global markets – thereby securing economic strength, employment and growth in Germany and Europe. Structuring medium and long-term financing for key industrial sectors of the export economy, for economic and social infrastructure projects and for measures to protect the climate and environment is at the core of the bank's activities.

KfW IPEX-Bank does not work alone in the majority of cases. Instead, it provides the large volumes of debt capital required in collaboration with other market participants. Its financing partners may be other German or international banks, or they may equally be institutional investors or supranational development institutions. Besides providing loans, KfW IPEX-Bank's main contribution to syndicate financing transactions is its structuring experience, which facilitates the creation of resilient loan structures for sustainable investments – to the benefit of all parties.

Demand for export and project finance remains stable

Global economic growth in 2016 stagnated at around the same level as the previous year. However, the picture across the different economic areas was very mixed. While falling prices for energy and other commodities stimulated the economy in many industrialised nations in 2015, this effect weakened considerably in 2016. Growth in the USA in particular slowed as a result.

Economic growth continued at a moderate pace in the member states of the European Economic and Monetary Union (EMU). Economic output in the EMU countries in 2016 was up by 1.7 % overall year-on-year.

Momentum began to pick up again somewhat in developing and emerging countries in 2016, following several years of economic decline up to 2015. Yet development was still inconsistent, even in this group of countries. China's economy continued to slow gradually, while crisis-stricken Brazil and Russia remained in recession. In contrast, the economies of several other emerging countries and a number of developing countries experienced solid growth. Global trade once again achieved only weak growth in 2016, attributable in particular to the industrialised nations.

Competition on the high-volume project and export finance market remained intense in 2016, driven by commercial banks in Europe, North America and Asia, but also by those in the emerging economies. Institutional investors, still under major pressure to invest given the low interest rate environment, continued to establish themselves as key players on the international lending market.

Successful 2016 financial year

In new business, KfW IPEX-Bank concentrated on borrowers with solid ratings, structuring financing for projects backed by good collateral and supporting long-standing customers. KfW IPEX-Bank conducted the majority of its business activities as a partner in syndicate financing arrangements with other national and international banks. In KfW's Export and Project Finance (E&P) business sector – for which KfW IPEX-Bank is responsible – the bank provided financings totalling EUR 16.1 billion in 2016.

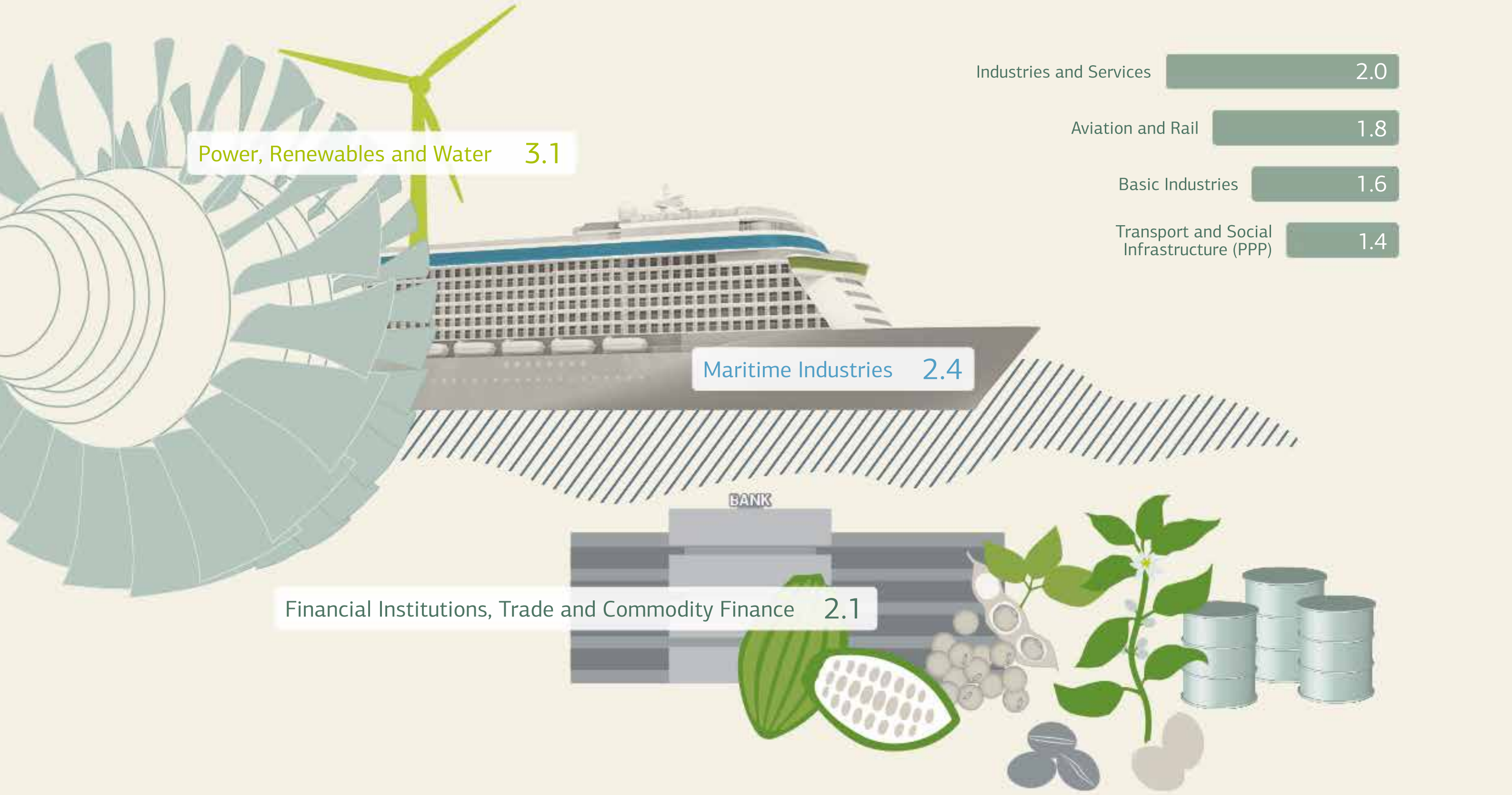
It generated a commitment volume of EUR 14.4 billion in its original lending business (2015: EUR 17.4 billion). In addition, there were new commitments for bank refinancing under the CIRR ship financing scheme totalling around EUR 1.7 billion (2015: EUR 2.2 billion). KfW IPEX-Bank participates in this scheme within the framework of an agency agreement with KfW as an agent acting on behalf of the Federal Republic.

Following the exceptional year that was 2015, when an accumulation of extraordinary transactions and market developments led to an especially high new business volume, the new commitment volume stabilised at a normal level as experienced in previous years. In the reporting year, the bank consistently prioritised business quality, thereby creating a balanced risk/return ratio. KfW IPEX-Bank's business activities underline its role as a successful specialist financier for the German and European export economies, which it is assisting in their international ventures by providing appropriate, individually structured financings. Of its total commitments, EUR 8.6 billion constituted KfW IPEX-Bank's market business, while EUR 7.5 billion was trust business performed on behalf of and for the account of KfW (including EUR 1.7 billion for bank refinancing under the CIRR ship financing scheme).

New commitments by sector department

All of KfW IPEX-Bank's sector departments played their part in generating

NEW COMMITMENTS BY SECTOR DEPARTMENT (EUR in billions)



FINANCING BY REGION (EUR in billions)

the 2016 result. The largest contributions – often as part of a consortium with partner banks – came from Power, Renewables and Water (EUR 3.1 billion), Maritime Industries (EUR 2.4 billion) and Financial Institutions, Trade and Commodity Finance (EUR 2.1 billion).

In 2016, KfW IPEX-Bank provided financing totalling EUR 2.2 billion for projects with a significant and measurable positive impact on the climate and environment. This corresponds to 13.8 % of the bank's total commitment volume. Financings in the Power, Renewables and Water sector department mainly related to onshore and offshore wind farms and highly efficient combined cycle power plants. This also underlines KfW IPEX-Bank's commitment to making a significant contribution to the protection of the environment and climate.

Global presence secures support for export economy

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

In 2016, Germany accounted for 23 % of new loan commitments, the rest of Europe 38 % and countries outside Europe 38 % (differences in totals due to rounding). 28 % of the original new lending business was attributable to emerging markets.

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

Responsible actions

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

As part of the operational implementation of its own Sustainability Guideline, KfW IPEX-Bank will only provide financing if a project meets environmental and social standards. This may lead the bank to impose additional covenants. When assessing project risk during the lending process, KfW IPEX-Bank receives support from KfW's experts in technical and social science disciplines, depending on the project's environmental category.

Economic and financial results

2016 was an extremely successful year for KfW IPEX-Bank, which is responsible for the Export and Project Finance business sector within KfW Group. With a contribution of EUR 484 million to KfW's consolidated earnings, KfW IPEX-Bank reaffirmed its status as one of the Group's main sources of earnings. E&P once again played an active role in securing KfW's long-term promotional capacity, despite intense competition and challenging economic and market conditions.

The operating result of the E&P business sector, for which KfW IPEX-Bank is responsible, was EUR 645 million, down slightly on the previous year. It mainly comprised net interest income and net commission income, less administrative expense, which rose slightly in the reporting year. The level of risk provisions was assessed conservatively in the reporting year in order to cover all recognisable risks adequately, meaning that the overall result from ordinary business activities stood at EUR 499 million.
KfW IPEX-Bank GmbH is a legally independent and separate reporting entity which performs all E&P market transactions. The bank reported a solid pre-tax profit of EUR 108 million. The volume of lending in the Export and Project Finance business sector as of 31 December 2016 was EUR 69.4 billion (year-end 2015: EUR 69.4 billion).

Reinforcing our competitive position

In 2017, KfW IPEX-Bank aims to reinforce its position as a dependable specialist financier and stable partner to key industries that are vital to the German and European economies. The bank is therefore maintaining its sales and marketing activities at a high level across all sector departments and regions.

It is selectively adding to its product portfolio and moderately expanding its network of foreign representative offices, which is expected to help build on existing customer relationships, acquire new customers and tap into new customer groups for financings in the business sector. The bank's strategic focus is also designed to generate a steady share of new business that contributes to environmental and climate protection. Based on growing competition and a portfolio management strategy geared towards quality, KfW IPEX-Bank's target for new commitments in the 2017 financial year is EUR 15.9 billion.

A progressive and responsible human resources policy

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

KfW IPEX-Bank employed an average of 666 members of staff in 2016 (previous year: 651). The proportion of employees working part-time increased further from 18.9 % in the previous year to 21 % at year-end. Female staff made up 46.3 % of the workforce. The proportion of women in management has also increased again and now stands at 26.3 % (previous year: 25.3 %). The proportion of disabled employees was 1.5 % at year-end (previous year: 0.9 %), and this figure is set to rise continuously. The average age of the bank's employees was 41.6 years. The staff turnover rate adjusted for retirement was 2.1 % in 2016 (previous year: 5.1 %).

A remuneration system linked to performance and market developments

KfW IPEX-Bank's remuneration system helps to promote the bank's attractiveness as an employer. As a major institution within the meaning of the Remuneration Ordinance for Institutions (*Institutsvergütungsverordnung – InstitutsVergV*), KfW IPEX-Bank observes regulatory requirements regarding the appropriateness of its remuneration systems. These are designed to link all employees' remuneration with personal performance and sustained success at bank, department and individual level, and are set out transparently and in a way that is easy to understand. There is a balanced combination of fixed and variable remuneration, which is structured in such a way that there are no incentives for employees to take disproportionately high risks.

Gender-sensitive culture

KfW Group's commitment to gender equality is high – including when compared to other organisations. It is a key component of human resources policy and is firmly established in KfW IPEX-Bank's guide-

Personnel key figures

Employees	666
Part-time employees	21 %
Average age	41.6 years
Proportion of female staff	46.3 %
Proportion of male staff	53.7 %
Proportion of women in management	26.3 %
Proportion of disabled employees	1.5 %

lines. In accordance with the German law on equal participation of women and men in management positions in the private and public sectors, KfW IPEX-Bank continues to pursue its objective of increasing the proportion of women in managerial positions (see also the Notes in the Management Report). Gender balance requires role models and perseverance in order to achieve lasting effects. In 2016, a series of internal debates was held on the theme of 'Women in management', where experienced and potential female managers discussed both what prevents women taking on managerial roles and what motivates them to do so. The findings from these debates were used to develop further measures, which will be implemented on a gradual basis. Since childcare and caring for relatives are both important factors for women and men when it comes to balancing work and family life, two members of KfW IPEX-Bank's staff have been trained as 'care guides', whom employees can approach as a first point of contact if they have any queries concerning caring responsibilities.

Modern staff development

To ensure employees and management can continue to work effectively in the future, staff development at the bank concentrates on continuously adapting professional skills from an early stage, on developing modern management tools and identifying and promoting talent. The project focus in 2016 was on the following areas:

Promoting young talent – new trainee programme

A central focus of the bank's human resources strategy is ensuring that graduates gain the qualifications they need to assume the high level of responsibility their roles as employees of KfW IPEX-Bank involve. In 2016, the existing trainee programmes were extensively evaluated and redesigned in order to achieve this goal. Here, the content of the 'Market' and 'Risk' trainee programmes was aligned even more closely to the roles that trainees will go on to assume. The redesign also involved the development of a compulsory professional and personal training programme, a top-tier management mentoring scheme, and new formats to create visibility and a sense of cohesion within the trainee group and to improve their integration and identification with KfW IPEX-Bank.

KfW IPEX-Bank Academy

The in-house advanced development programme was closely examined in 2016. The programme in place was scrutinised and KfW IPEX-Bank's current needs were precisely analysed. A completely revamped development scheme was elaborated in a structured process involving a high volume of staff resources across all management tiers of the bank. This scheme aims to introduce measures which will maintain on-the-job professionalism at its already high level, or which may increase it even further. In addition to a number of new options – especially for employees involved in the lending process – the scheme also includes tried-and-tested, proven modules from the existing programme. Newly conceived units focusing on sales and communications training in English complete the range of new offers. The KfW IPEX-Bank Academy also makes extended offers for managerial staff.

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

A great deal of attention is paid to continuing education within the bank; nearly 70% of all training sessions will be run by the bank's own employees in the future. This way, the organisation will retain valuable experience and relevant know-

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

how. External partners are generally used for special topics such as sessions relating to management and communication.

Employer branding and personnel marketing

E-recruitment

With the introduction of a state-of-the-art e-recruitment system, KfW Group has taken a major step towards the digitalisation of its own business processes. The new system means that the entire staff appointment process can be handled electronically and is supported by semi-automated workflows. This is advantageous for both sides: Candidates benefit from fast processes and direct information, while KfW IPEX-Bank benefits from convenient system support that reduces the amount of manual work required to a bare minimum. This leaves more time for what is important, namely the people behind the job applications.

Fair Company and Top Employer

KfW IPEX-Bank participates in the Fair Company initiative along with a further 600 businesses. This is the largest employer initiative in Germany for students and young professionals. It aims to ensure that university graduates and interns are treated fairly and that they are not used as substitutes for full-time positions. In 2016, KfW IPEX-Bank also earned recognition for its commitment in this area under the charter of fair and career-enhancing trainee programmes (*Charta karrierefördernder und fairer Traineeprogramme*). The Top Employers Institute also performed an independent evaluation of KfW IPEX-Bank and awarded it Top Arbeitgeber Deutschland 2016 (top employer in Germany in 2016) certification.

Works council and representation of disabled employees

Successful human resources policy is based on a social partnership that is put into practice and takes account of employees' interests. The works council with its 11 members plays a key role in achieving this. A close and trusting working relationship exists with the works council with regard to all relevant topics. In collaboration with the representatives for disabled employees, the number of employees with disabilities was increased further in 2016.

››› Management Report

Economic Report

General economic conditions in 2016

Global economic growth in 2016 stagnated at around the same level as the previous year. However, the picture across the different economic areas was very mixed. Growth slowed in the group of industrialised nations, especially in the USA. Consumer spending in the industrialised nations was robust and interest rates remained favourable. Yet private and public investment was weak. While falling prices for energy and other commodities stimulated the economy in many industrialised nations in 2015, this effect weakened considerably in 2016. Economic growth began to pick up again somewhat in developing and emerging countries in 2016, following several years of economic decline up to 2015. Yet development was still inconsistent, even in this group of countries. China's economy continued to slow gradually, while crisis-stricken Brazil and Russia remained in recession. In contrast, a number of other emerging countries and also many developing countries experienced solid growth. Global trade once again achieved only weak growth in 2016, attributable in particular to the industrialised nations.

Economic recovery continued at a moderate pace in the member states of the European Economic and Monetary Union (EMU). Economic output in the EMU countries in 2016 was up by 1.7% overall year-on-year. KfW had anticipated growth at around this level. The European economy therefore weathered the high amount of political uncertainty created by the Brexit vote in June and concerns about parts of the banking sector relatively well. It was helped along the way by a range of supporting factors, such as the low price of oil, a favourable exchange rate, spending on the care of refugees and further reductions in funding costs thanks to the continuation of expansionary monetary policy. Consumer spending continued to benefit from rising employment and therefore remained the key growth driver. Government consumption and gross fixed capital formation also helped to boost growth. Nevertheless, capital investment was still blighted by structural weaknesses. The pace of foreign trade halved, mirroring the downward trend seen in global trade. However, since imports and exports both slowed to a similar degree, the trade balance – i.e. the difference between imports and exports – had very little impact overall in terms of curbing growth.

According to initial estimates from the Federal Statistical Office *(Statistisches Bundesamt)*, the German economy grew by 1.9% in 2016, similar to the growth recorded in 2015 (+1.7%). One year ago, KfW had forecast that economic growth in 2016 would be around the same level as the previous year. Its predictions concerning the actual development of GDP were therefore correct. Domestic demand proved reliable once again. Consumer spending was by far the biggest growth driver, benefiting from a continued rise in employment and significant increases in real wages. Corporate investment activity was particularly strong at the beginning of the year, but largely stagnated as the year went on. Above all, it is likely that the unexpected Brexit vote and the protectionist plans set forth in the election campaign by the later US president unsettled export-oriented German companies and caused them to delay their investment decisions. Despite moderate export growth, the trade balance had a slightly dampening effect on economic growth as firm domestic demand caused imports to grow slightly more strongly than exports.

The financial markets continued to be dominated by highly expansionary monetary policy seen around the globe in 2016. Growing fears about the global economy at the start of 2016 and ongoing falls in the price of oil placed yet more downward pressure on prices, prompting the European Central Bank (ECB) to intensify its expansionary monetary policy once again. However, concerns about global growth began to recede again as the year went on. Political events from the middle of the year onwards – such as the British electorate's majority vote in favour of the UK's exit from the EU, and the surprising outcome of the US presidential election – led to significant movement on the financial markets. Before the summer, financial market participants appeared to favour lower-risk asset classes. It was only in the second half of the year that investors began to display a noticeable sense of optimism again. This trend was driven by the Republican candidate's victory in the US presidential election, which was expected to be followed by extensive fiscal policy stimuli. As a result, risky asset classes came very much into favour with investors, while there was a clear correction on the bond markets.

In response to extremely low inflation rates, which had temporarily dropped below zero, the European Central Bank took the decision in March 2016 to increase the monthly volume of its asset purchase programme from EUR 60 billion to EUR 80 billion and to expand the programme to include corporate bonds with good credit ratings. In addition, the deposit rate was reduced once more, from –0.30% to –0.40%.

The USD/EUR exchange rate ranged between just under 1.04 and 1.15 during 2016. The euro appreciated against the US dollar in the first few months of the year, reaching its highest point for the year at the start of May at 1.15. However, it then began to depreciate and temporarily dropped below the 1.04-mark against the US dollar in the second half of December. The average USD/EUR exchange rate in 2016 was just under 1.11, remaining virtually unchanged compared to the previous year.

Business development in 2016

Within KfW Group, KfW IPEX-Bank is responsible for the international Export and Project Finance business sector. Its task of providing financing in the interests of the German and European economies is derived from KfW's statutory mission.

The global economy appeared relatively weak overall in the reporting year, but began to rally slightly towards the end of the year. Despite multiple political uncertainties, the euro area economy remained on an unspectacular albeit solid growth path. As a result, German and European manufacturers reported largely stable demand. Competition on the high-volume project and export finance market remained intense in 2016, driven by commercial banks in Europe, North America and Asia, but also by banks in the emerging economies. Institutional investors, still under major pressure to invest given the low interest rate environment, continued to establish themselves as key players on the international lending market.

In new business, KfW IPEX-Bank concentrated on borrowers with solid ratings, structuring financing for projects backed by good collateral and supporting long-standing customers. KfW IPEX-Bank conducted the majority of its business activities as a partner in syndicate financing arrangements with other national and international banks. In KfW's Export and Project Finance (E&P) business sector – for which KfW IPEX-Bank is responsible – the bank provided financings totalling EUR 16.1 billion in 2016. The bank generated a commitment volume of EUR 14.4 billion in its original lending business (2015: EUR 17.4 billion). In addition, there were new commitments for bank refinancing under the CIRR ship financing scheme totalling around EUR 1.7 billion (2015: EUR 2.2 billion). KfW IPEX-Bank participates in this scheme within the framework of an agency agreement with KfW (agent acting on behalf of the Federal Republic).

Following the exceptional year that was 2015, when an accumulation of extraordinary transactions and market developments led to an especially high new business volume, the new commitment volume stabilised at a normal level as in previous years. In the reporting year, the bank consistently prioritised business quality over quantity, thereby creating a balanced risk/return ratio. KfW IPEX-Bank's business activities underline its role as a successful specialist financier for the German and European export economies, which it is assisting in their international ventures by providing appropriate, individually structured financings. Of its total commitments, EUR 8.6 billion constituted KfW IPEX-Bank's market business, while EUR 7.5 billion was trust business performed on behalf of and for the account of KfW.

KfW IPEX-Bank has a branch in London and nine foreign representative offices. A key element of its business strategy is its presence in important international target markets for the German and European export industries. This is in line with the bank's mission and plays a role in achieving it: to help the German and European export economies compete in the global marketplace and to offer financing for investment in infrastructure and transport, for environmental and climate protection projects and for projects that secure the supply of raw materials – across the world.

KfW IPEX-Bank funds itself almost entirely through borrowings from KfW, at terms and conditions in line with those on the capital markets. These funding conditions proved to be just as volatile as in the previous year for KfW IPEX-Bank, as was the case for other commercial banks. As a result of considerable uncertainty on international financial markets triggered by price slumps on the Chinese stock market and the falling price of oil, funding costs for European financial institutions rose significantly up to the end of February. The capital markets then settled down again owing to measures introduced by large central banks, including cuts to key interest rates and deposit rates and the European Central Bank's decision to expand its bond purchase programme. Funding conditions for banks fell up to the end of April, before trending sideways with volatility up to the end of June as the UK held a referendum on leaving the European Union (Brexit). Funding conditions for European banks improved further in the third quarter, driven by the expansionary monetary policies applied by major central banks and more positive global economic data. The interest rate turnaround that began in October as a result of higher inflation expectations, which was amplified further by the election of Donald Trump as the next US President in November, impacted funding conditions for financial institutions up to the start of December. Following on from this, the European Central Bank's decision to extend its bond purchase programme, combined with higher share prices, led to another decline in funding conditions for European banks up to the end of the year. Averaged over 2016 as a whole, KfW IPEX-Bank's funding conditions for the euro were thus at a similar level to the previous year, but were up on the previous year when taken together with the increase in US dollar funding prices.

KfW IPEX-Bank has an AA+ rating from Standard & Poor's and an A2 rating from Moody's. Standard & Poor's increased its rating from AA to AA+ in 2016. Moody's confirmed its rating of the bank without change.

Overview of results of operations, net assets and financial position

KfW IPEX-Bank generated operating income before risk provisions and valuations of EUR 284 million in the 2016 financial year. This is EUR 66 million (–19 %) less than the very high result achieved in the previous year. As the bank's main source of income, net interest income (EUR 336 million) was up slightly, increasing by EUR 2 million (+1 %). However, net commission income (EUR 153 million) was down on the previous year by EUR 35 million (–19 %), stabilising at a normal level again following the exceptionally high new business volume generated in 2015. Administrative expense (EUR 217 million), comprising personnel expense of EUR 85 million and other administrative expense of EUR 132 million, including depreciation on property, plant and equipment, was around the same level as the previous year. Other operating income and expenses (EUR 12 million) primarily comprise foreign exchange gains (EUR 8 million). In view of the high proportion of its assets denominated in USD (around 50 %), KfW IPEX-Bank maintains a fund for general banking risks as per Section 340g of the German Commercial Code *(Handelsgesetzbuch – HGB)*, which serves to strengthen its tier 1 capital and stabilise solvency ratios against fluctuations in the US dollar exchange rate. The appreciation of the US dollar compared to 31 December 2015 led to EUR 12 million being appropriated to the fund, which is listed as a separate item in the income statement and is contained in the bank's foreign exchange gains.

The risk provision and valuation result was up significantly year-on-year at EUR –164 million, an increase of EUR 88 million (>100 %). This is almost entirely attributable to the risk provision result in the lending business (EUR –166 million), which was dominated by higher risk provisioning requirements in connection with the revaluation of collateral and measures to optimise the portfolio, primarily in the Maritime Industries sector department. Over the reporting year, KfW IPEX-Bank covered all recognisable risks through its conservative risk assessment approach.

The bank generated operating income before taxes of EUR 120 million in the financial year. After deducting appropriations to the fund for general banking risks as per Section 340g of the German Commercial Code (EUR –12 million) for ongoing adjustment to movements in the USD exchange rate, profit from operating activities before taxes was EUR 108 million.

As part of measures to optimise the corporate structure, KfW IPEX-Beteiligungsholding GmbH merged with KfW Beteiligungsholding GmbH in the 2016 financial year. As a wholly-owned subsidiary of KfW, KfW Beteiligungsholding GmbH is therefore the sole shareholder of KfW IPEX-Bank. Following this, KfW Beteiligungsholding GmbH and KfW IPEX-Bank signed a profit transfer agreement in order to form a CIT fiscal unity with effect from 1 January 2016. Under this profit transfer agreement, KfW IPEX-Bank (controlled company) will transfer its entire profit under German commercial law to KfW Beteiligungsholding GmbH (controlling company) for the first time for the 2016 financial year. Taxes on income still primarily comprise income tax expense for the branch office in London (EUR –3 million). The obligation to transfer the remaining annual profit after deducting taxes on income (EUR 105 million) came into force at the end of the financial year as of 31 December 2016. KfW IPEX-Bank therefore reported a 'zero result' in the 2016 financial year. The profit was transferred to the controlling company once the annual financial statements had been approved by the general shareholders' meeting in March 2017.

Total assets were up slightly year-on-year at EUR 29.4 billion on the balance sheet date, an increase of EUR 0.8 billion (+3 %). This rise was driven by loans and advances to banks and customers, which – at EUR 26.6 billion – were up EUR 0.6 billion (+2 %). The bank's credit portfolio accounts for almost all of this position. The growth of the credit portfolio driven by the appreciation of the US dollar compared to 31 December 2015 was offset in part by the reduction in short-term deposits with KfW during the same period. Bonds and other fixed-income securities (EUR 2.3 billion) largely comprise a portfolio of high-quality and highly liquid assets made up of KfW securities, which are held in order to fulfil the regulatory liquidity coverage ratio (LCR). On the liabilities and equity side, the growth in total assets is reflected primarily in liabilities to banks (EUR 23.7 billion), which increased by EUR 0.9 billion (+4 %) during the reporting period. The position mainly consists of ongoing funding the bank receives from KfW in the form of promissory note loans, call money and term borrowings. It also includes borrowings via the issuance of registered Public Pfandbriefe, with KfW as the sole investor.

As the sum of total assets, financial guarantees and irrevocable loan commitments, the volume of business (EUR 37.7 billion) was down slightly compared to 31 December 2015, declining by EUR 0.5 billion (–1 %). Here, the increase in total assets described above was more than offset, primarily by a decrease in irrevocable loan commitments.

KfW IPEX-Bank's regulatory own funds totalled EUR 4.0 billion as of 31 December 2016. The bank's capital ratios increased substantially year-on-year: total capital ratio = 20.47 % (previous year: 18.19 %), tier 1 capital ratio = 17.75 % (previous year: 15.69 %) and CET1 capital ratio = 14.65 % (previous year: 12.58 %).

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

Earnings position

	1 Jan.–31 Dec. 2016	1 Jan.–31 Dec. 2015	Change	
	EUR in millions	EUR in millions	EUR in millions	%
Net interest income[1)]	336	334	2	1
Net commission income	153	188	–35	–19
General administrative expense	–217	–216	1	0
Other operating income and expenses	12	44	–32	–73
Operating income before risk provisions/valuations	**284**	**350**	**–66**	**–19**
Valuations from securities and investments	2	7	5	71
Risk provision result in lending business	–166	–83	83	100
Risk provisions and valuations, total	**–164**	**–76**	**88**	**>100**
Operating income before taxes	**120**	**274**	**–154**	**–56**
Appropriations to the fund for general banking risks as per Section 340g of the German Commercial Code (HGB)	–12	–37	–25	–68
Profit/loss from operating activities before taxes	**108**	**237**	**–129**	**–54**
Taxes on income	–3	–93	–90	–97
Profit transferred due to a profit pooling, profit transfer or partial profit transfer agreement	–105	0	105	–
Net income for the year	**0**	**144**	**–144**	**–100**

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

KfW IPEX-Bank once again generated a high level of operating income before risk provisions and valuations in the 2016 financial year (EUR 284 million). After taking into account risk provisions and valuations (EUR –164 million), the bank generated operating income before taxes of EUR 120 million. This is down EUR 154 million (–56 %) on the previous year's extraordinarily high result, due in part to higher risk provisioning requirements in connection with the revaluation of collateral and measures to optimise the portfolio, primarily in the Maritime Industries sector department.

Net interest income and net commission income

As the bank's most important sources of earnings, net interest income and net commission income totalled EUR 489 million. They comprised net interest income of EUR 336 million and net commission income of EUR 153 million, representing an overall decrease of EUR 33 million (–6 %) compared to the previous year.

Net interest income comprises interest income including income from equity investments of EUR 673 million, which is offset by interest expense of EUR 337 million. At EUR 663 million, interest income resulted primarily from the bank's lending business and money market transactions. This figure also includes interest-like income of EUR 31 million in the form of commitment fees for loans not yet disbursed. Bonds and other fixed-income securities contributed EUR 10 million towards the result. The bank's ongoing funding accounted for the majority of interest expense (EUR 276 million). KfW IPEX-Bank obtains almost all of its funding from KfW. Medium and long-term borrowing requirements are met by means of promissory note loans and registered Public Pfandbriefe. Short-term funding is primarily obtained in the form of call money and term borrowings. Interest expense comprises expenses for the hybrid capital instruments of the silent partner contribution (EUR 21 million), subordinated liabilities (EUR 16 million) and net expense from interest rate, foreign exchange and cross-currency swaps (EUR 17 million).

Net commission income (EUR 153 million) was down EUR 35 million (–19%) on the 2015 result, which contained extraordinarily high income from processing fees resulting from the very strong volume of new lending business that year. New commitments and commission income generated from these stabilised at a high level in the 2016 financial year. Commission income totalled EUR 159 million, EUR 85 million of which was attributable to payments from KfW for the E&P trust business administered by KfW IPEX-Bank. The bank also generated income from processing fees in the market business (EUR 60 million) and in the form of guarantee commissions (EUR 14 million). Commission expense amounted to EUR 6 million and was primarily attributable to fees for guarantees received in connection with the lending business.

Administrative expense

	1 Jan.–31 Dec. 2016	1 Jan.–31 Dec. 2016	Change
	EUR in millions	EUR in millions	EUR in millions
Wages and salaries	73	74	–1
Social insurance contributions	8	7	1
Expense for pension provisions and other employee benefits	4	17	–13
Personnel expense	**85**	**98**	**–13**
Non-personnel expense	**132**	**118**	**14**
Administrative expense	**217**	**216**	**1**

Administrative expense

Administrative expense (EUR 217 million) comprised personnel expense (EUR 85 million) and other administrative expense plus depreciation and impairment on intangible assets and property, plant and equipment (EUR 132 million). It remained around the same level as the previous year, as a decline in personnel expense (EUR –13 million) almost completely offset an increase in other administrative expense (EUR +14 million). Personnel expense mainly comprised expenditure for wages and salaries paid to employees totalling EUR 73 million, and a further EUR 12 million for social insurance contributions, pensions and other employee benefits, including appropriations to provisions for the staff pension scheme (primarily pensions and deferred compensation). In the wake of the ongoing period of low interest rates and the associated rise in charges incurred by companies in connection with staff pension commitments, legal reforms were introduced in 2016 with regard to regulations given in Section 253 (2) of the German Commercial Code concerning the valuation of provisions with a residual term of more than one year. The period over which the average market interest rate used to discount provisions for pension commitments is calculated was extended from seven to ten years. This led to a significant reduction in personnel expense in the 2016 financial year. Other administrative expense mainly comprised expenses for general services and project services provided by KfW (EUR 100 million). These included in particular service costs (EUR 62 million), office operating costs (EUR 22 million) and occupancy costs (EUR 9 million). Expenses for general services and project services were up EUR 11 million year-on-year. This increase in costs was due in particular to large projects relating to the modernisation of IT infrastructure and the implementation of supervisory guidelines. Expenditure for the EU bank levy amounting to EUR 11 million (previous year: EUR 8 million) is also reported under other administrative expense.

Other operating income and expenses

The bank's foreign exchange gains accounted for EUR 8 million of other operating income and expenses (EUR 12 million). This was offset by ongoing adjustment of the fund for general banking risks as per Section 340g of the German Commercial Code to changes in the USD exchange rate (EUR –12 million). This is reported in a separate item on the income statement: 'Appropriations to the fund for general banking risks'. Apart from that, other operating income and expenses primarily include income from services to group companies (EUR 2 million) and from the reversal of provisions no longer required (EUR 1 million).

Risk provisions and valuations

Risk provisions and valuations were up significantly year-on-year at EUR –164 million, an increase of EUR 88 million (>100%). This development was mainly due to the risk provision result in the lending business of altogether EUR –166 million. Valuations from securities and investments contributed a further EUR 2 million to the result.

The increased need for additional provisions for acute risks constituted a key aspect of the risk provision result in the lending business. This resulted primarily from the revaluation of collateral and measures to optimise the portfolio in the Maritime Industries sector department. As well as specific loan loss provisions for acute risks, KfW IPEX-Bank also recognises portfolio loan loss provisions for loans for which no specific loan loss provisions have been recorded. The calculation uses an expected loss concept, under which the risk provisions are based on the loss expected within one year for all loans for which no specific loan loss provisions have been recognised. Total specific and portfolio loan loss provisions were up slightly on the previous year. The bank covered all recognisable risks with commensurate risk provisions in line with its conservative approach to risk assessment.

Valuations from securities and investments included income from write-ups on securities held as current assets (EUR 2 million) and as fixed assets (EUR 1 million). This was offset in part by expenses for write-downs on a fund investment (EUR 1 million).

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

Net income

After deducting taxes on income (EUR –3 million), most of which were attributable to income taxes for the branch office in London following conclusion of the profit transfer agreement between KfW Beteiligungsholding GmbH and KfW IPEX-Bank, the bank generated an annual profit of EUR 105 million. In view of the obligation arising from this agreement to transfer its entire profit to KfW Beteiligungsholding GmbH, KfW IPEX-Bank reported net income of EUR 0 million for the 2016 financial year.

Net assets

Volume of lending for own account

The volume of lending for own account (EUR 34.9 billion) includes on-balance sheet loans and advances to banks and customers as well as financial guarantees and irrevocable loan commitments as off-balance sheet items. The volume of lending was down slightly on the previous year, falling by EUR 0.8 billion (–2 %).

Loans for own account by sector department

Sector department	31 Dec. 2016	31 Dec. 2015	Change
	EUR in millions	EUR in millions	EUR in millions
Aviation and Rail	5,587	5,525	62
Power, Renewables and Water	5,370	4,600	770
Maritime Industries	5,142	5,151	–9
Basic Industries	3,260	3,002	258
Industries and Services	2,890	2,855	35
Financial Institutions, Trade and Commodity Finance	2,248	1,971	277
Transport and Social Infrastructure (PPP)	2,149	2,317	–168
Equity Portfolio	31	86	–55
	26,677	**25,507**	**1,170**
Other positions[1)]	–60	499	–559
Loans and advances to banks and customers	**26,617**	**26,006**	**611**
Financial guarantees[2)]	**1,640**	**1,961**	**–321**
Irrevocable loan commitments[2)]	**6,644**	**7,689**	**–1,045**
Total	**34,901**	**35,656**	**–755**

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

Development of the total volume of lending was characterised by two opposing effects: On the one hand, on-balance sheet loans and advances to banks and customers increased by EUR 0.6 billion (+2 %), with growth in loans and advances offset in part by a decline in short-term deposits with KfW. This was mainly driven by the EUR 0.8 billion (+17 %) rise in loans and advances in the Power, Renewables and Water sector department. On the other hand, however, off-balance sheet irrevocable loan commitments fell by EUR 1.0 billion (–14 %). The bank's three largest sector departments – Aviation and Rail, Power, Renewables and Water and Maritime Industries – accounted for EUR 16.1 billion (60 %) of the on-balance sheet volume of lending. In the reporting year, KfW IPEX-Bank issued new commitments in the Export and Project Finance business sector totalling EUR 14.4 billion. Of this amount, EUR 8.6 billion relates to the market business reported on the bank's balance sheet and EUR 5.8 billion to the E&P trust business administered on behalf of KfW. The bank also issued refinancing loan commitments for other banks totalling EUR 1.7 billion under the CIRR ship financing scheme. Following the record volume achieved in 2015, new business was therefore, at EUR 16.1 billion, around the level seen in previous years.

Development of other major balance sheet assets

Bonds and other fixed-income securities (EUR 2.3 billion) primarily comprise the portfolio of high-quality and highly liquid assets held in order to fulfil the regulatory liquidity coverage ratio (LCR). This consists solely of KfW securities (EUR 2.1 billion), which are assigned to current assets. The other securities (EUR 0.2 billion) are assigned to fixed assets.

Assets held in trust (EUR 240 million), which are recognised in the balance sheet, relate to lending business that KfW IPEX-Bank administers on a trust basis for third parties. These assets fall under the bank's civil-law ownership.

Other assets (EUR 100 million) primarily include the balancing item for the foreign currency translation of derivative hedges (EUR 97 million).

The carrying amount of equity investments was EUR 96 million, as in the previous year, and is mainly attributable to the bank's fund investments.

Financial position

Funding

Liabilities to banks amounted to EUR 23.7 billion and were almost wholly attributable to funding obtained from KfW (EUR 23.5 billion). KfW provides KfW IPEX-Bank with debt capital in the form of money market and capital market products at market conditions on the basis of the existing refinancing agreement. The bank covers its medium and long-term funding requirements through promissory note loans and the issuance of registered Public Pfandbriefe, which are acquired exclusively by KfW.

It also funds itself by means of call money and term borrowings. Funding is obtained in the currencies and for the tenors required for the bank's business activities.

Liabilities to customers (EUR 0.4 billion) resulted primarily from cash collateral acquired in connection with the lending business and deposits from customers.

Structure and development of funding

	31 Dec. 2016	31 Dec. 2015	Change
	EUR in millions	EUR in millions	EUR in millions
Liabilities to banks			
Current account (KfW)	16	0	16
Call money and term borrowings (KfW)	3,112	3,011	101
Promissory note loans and other long-term borrowings (KfW)	20,314	19,507	807
Interest payable (KfW)	96	90	6
KfW total	**23,538**	**22,608**	**930**
Other	137	153	–16
	23,675	**22,761**	**914**
Liabilities to customers			
Other creditors[1)]	372	556	–184
Total	**24,047**	**23,317**	**730**

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

KfW IPEX-Bank secures its liquidity and therefore ensures it is sufficiently solvent at all times by means of the refinancing agreement with KfW described above and a portfolio of high-quality and highly liquid KfW bonds. It also holds liquid assets in the form of short-term investments and has an open credit facility with KfW (EUR 1.0 billion). Further details on the liquidity situation are contained in the Risk Report.

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

	31 Dec. 2016	31 Dec. 2015	Change
	EUR in millions	EUR in millions	EUR in millions
Equity	3,475	3,475	0
Subscribed capital	*2,100*	*2,100*	*0*
Capital reserve	*950*	*950*	*0*
Retained earnings	*425*	*425*	*0*
Subordinated liabilities	949	919	30
Fund for general banking risks as per Section 340g of the German Commercial Code	368	357	11
Total	**4,792**	**4,751**	**41**

The composition and amount of equity shown in the balance sheet are unchanged compared with the previous year. Subscribed capital consists of share capital and a silent partner contribution for which there is no contractual maturity date. KfW IPEX-Bank's capitalisation is reviewed as part of a capital planning calculation performed twice annually and adjusted where necessary (see Risk Report for further details). The change in subordinated liabilities resulted solely from the appreciation of the US dollar compared to 31 December 2015.

In light of regulatory capital requirements, the bank makes appropriations to a fund for general banking risks in accordance with Section 340g of the German Commercial Code with the aim of strengthening its tier 1 capital and stabilising solvency ratios against fluctuations in exchange rates. The appreciation of the US dollar (+3%) compared to the previous year led to appropriations totalling EUR 12 million in the financial year. These are reported in a separate item on the income statement and are contained in the bank's foreign exchange gains.

Development of other material items of liabilities and equity

Provisions (EUR 185 million) decreased by EUR 12 million (–6%) compared to 31 December 2015. This was due to the EUR 21 million (–76%) decline in income tax provisions. As a result of the CIT fiscal unity between KfW Beteiligungsholding GmbH and KfW IPEX-Bank, taxation for the Frankfurt headquarters was applied at controlling company level for the first time in the 2016 tax year. By contrast, provisions for pensions and similar commitments increased by EUR 7 million (6%), reflecting the ongoing period of low interest rates and the associated further reduction in the average market rate used to discount provisions in accordance with Section 253 (2) of the German Commercial Code.

Other liabilities (EUR 109 million) primarily consisted of the profit transfer liability payable to KfW Beteiligungsholding GmbH (EUR 105 million). Other liabilities were up EUR 38 million (55%) overall year-on-year.

Off-balance sheet financial instruments

KfW IPEX-Bank had derivatives with a nominal volume of EUR 26.2 billion on its books as of 31 December 2016. It performs derivative transactions primarily in order to hedge interest and exchange rate risks. The majority of this derivative volume – EUR 22.6 billion – related to interest rate swaps (86%). Apart from this, the bank mainly uses cross-currency swaps (EUR 1.2 billion) and foreign exchange (FX) swaps (EUR 2.4 billion). The derivative volume increased by EUR 5.1 billion (+24%) year-on-year.

Summary

KfW IPEX-Bank ended the 2016 financial year with good operating income before risk provisions and valuations. Following the extraordinarily positive results achieved over the last two years, this result was of the level expected. After taking into account the risk provision and valuation result as well as appropriations to the fund for general banking risks, the bank's pre-tax profit from operating activities was EUR 108 million. This profit was influenced by higher risk provisioning requirements, primarily in the Maritime Industries sector department, combined with the bank's ongoing conservative risk policy. After deducting taxes on income, the bank generated an annual profit of EUR 105 million, which was transferred to the controlling company within the context of the CIT fiscal unity between KfW Beteiligungsholding GmbH and KfW IPEX-Bank, subject to approval of the financial statements by the general shareholders' meeting in March 2017.

Sustainability Report

Taking responsibility – having an impact

The concept of sustainability defines KfW IPEX-Bank's business activities. Alongside ecological aspects, the bank is aware of the overall social impact of the projects it supports. KfW IPEX-Bank has developed its own comprehensive guideline for environmentally and socially sound financing (Sustainability Guideline), which reflects the responsibility it has taken on. This Guideline encompasses a number of global standards.

- Since 2008, KfW IPEX-Bank has been a member of the Equator Principles Financial Institutions (EPFIs). This international association now encompasses nearly 90 so-called equator banks, which voluntarily adhere to an extensive framework for meeting environmental and social standards when financing projects, when providing project-specific corporate finance, and when providing financial advisory services or bridge loans for project financings.
- Depending on the area in which they are being applied, the Equator Principles require compliance with the International Finance Corporation Performance Standards (IFC PS) and the Environmental, Health, and Safety (EHS) Guidelines of the World Bank Group.
- In cases where financing is guaranteed by OECD export credit agencies, KfW IPEX-Bank, in its role as an export financier, must observe the OECD's Common Approaches.

KfW IPEX-Bank's guideline for environmentally and socially sound financing goes beyond these global regulatory frameworks: In addition to compliance with the Equator Principles and the OECD's Common Approaches for ECAs, the bank also conducts extensive appraisals for all its other financing products to ensure the conduct of its borrowers is environmentally and socially sound.

High standards in environmental and social impact assessments

As part of the operational implementation of its own Sustainability Guideline, KfW IPEX-Bank subjects all planned financings worldwide to an environmental and social impact assessment. In line with this Guideline, the bank assigns every project to one of three categories – A, B or C – at the start of the credit approval process, depending on the degree of potential environmental and social impact. All projects that could have substantial, diverse and, in some cases, irreversible impacts that cannot be minimised by means of technical measures are assigned to category A. This category covers projects that have an impact on nature, such as raw materials projects. Category B comprises projects whose effects on the environment and society are more moderate and usually manageable with well-tested technology; this applies to many industrial projects. Projects with negligible or no negative impact on the environment or society are classified as category C.

Following further credit checks performed as part of the lending process, KfW IPEX-Bank will only provide financing if a project meets all environmental and social standards. This may lead the bank to impose additional covenants. When assessing project risk during the lending process, KfW IPEX-Bank receives support from KfW's experts in scientific, technical and social science disciplines, depending on the project's environmental category.

Of the approximately 300 new loan agreements concluded in the Export and Project Finance business sector in 2016, over two-thirds are located in OECD countries. These countries implement their own authorisation and monitoring regimes, which can be assumed to provide adequately enforceable protection against negative environmental and social impact. Fewer than 10% of all loan agreements were categorised as A or B and involved projects in non-OECD countries. The majority of these were subject to more in-depth assessment.

For KfW IPEX-Bank, the term 'responsibility' means not only conducting its own assessments, but also constructive handling of outside criticism. Complaints relating to environmental and social issues can be made directly to the bank using a publicly accessible online form provided on the company website. They may be submitted by any individuals or organisations who feel adversely impacted by projects financed by the bank. In its project financings, KfW IPEX-Bank also imposes strict standards on its borrowers. For the duration of the project, KfW IPEX-Bank requires clients to establish and maintain a complaint mechanism in line with IFC Performance Standards and to document the results.

Climate and environmental protection projects in the bank's core business

In 2016, KfW IPEX-Bank provided financing totalling EUR 2.2 billion for projects with a significant and measurable positive impact on the climate and environment. This corresponds to around 13.8% of the total commitment volume. The bank therefore makes an important contribution to the achievement of KfW Group's ambitious environmental and climate protection targets. In 2016, this contribution primarily comprised financing for renewable energy projects.

In the Maritime Industries sector department, the bank is continuing to focus on measures to increase the environmental efficiency of the ships it finances. For instance, retrofitting is conducted to upgrade a ship's engine, bow or propeller to improve its energy efficiency. In keeping with the eco-shipping theme, the bank continues to employ an assessment method developed jointly with Germanischer Lloyd for its financings. This method enables the bank to include a ship's energy efficiency as an additional criterion when making its financing decision and to favour energy-efficient ships over traditional ones. This benefits the environment and also makes good business sense.

In addition to customer business, the bank also focuses on the sustainability of its own office operations, which it runs on a carbon-neutral basis. The West Arcade in Frankfurt am Main, where the bank is headquartered, is one of the most energy-efficient office buildings in the world. With a primary energy consumption of 98 kWh/m^2 per year, the 13-storey building falls well below comparable benchmark standards. Moreover, KfW IPEX-Bank and its controlling company KfW use 100% green electricity generated from hydropower. Since 2006, KfW IPEX-Bank has rendered its remaining emissions, such as those resulting from necessary business travel, carbon-neutral by purchasing and retiring emission certificates.

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.

Forward-looking 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, the KfW IPEX-Bank Academy in-house advanced development programme, 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 rose to 21% by year-end. The proportion of female staff was 46.3%.

As per 31 December 2016, the proportion of women in head of department positions at KfW IPEX-Bank was 31.3% and the proportion of women at team head level was 25%. KfW IPEX-Bank has set itself the objective of increasing the proportion of female staff at head of department level to 31.6% by 30 June 2017, and the proportion at team head level to 27.5%. By 30 June 2017, KfW IPEX-Bank aims to achieve the following targets for the proportion of women on the Management Board and Board of Supervisory Directors: 25% for the Management Board (i.e. one of four members) and 22.2% for the Board of Supervisory Directors (i.e. two of nine members).

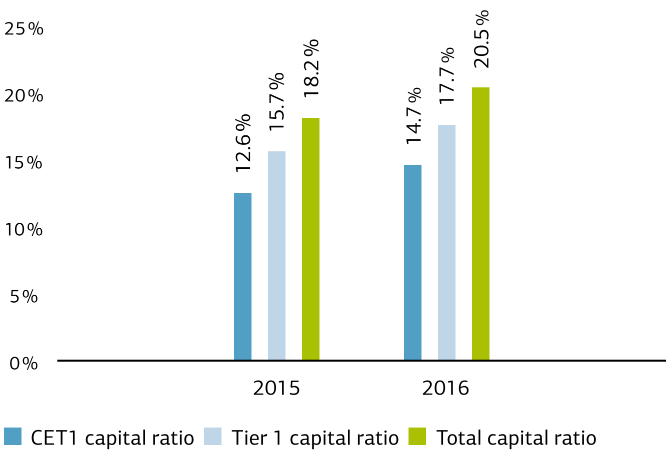
This not only reflects the requirements of German law on equal participation of women and men in management positions in the private and public sectors, but also the bank's own values.

Risk Report

Overview of key indicators

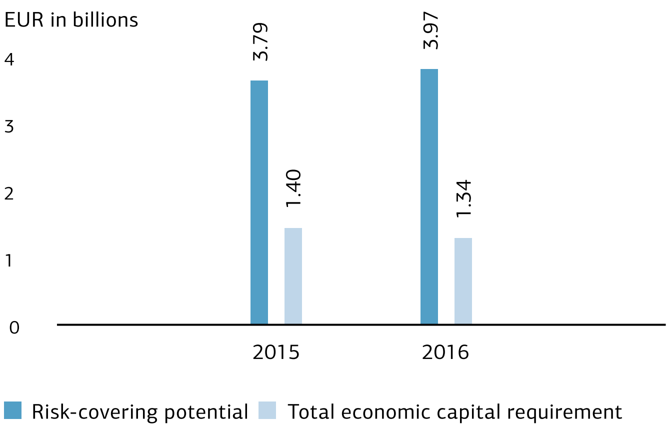
Risk reporting is performed in accordance with KfW IPEX-Bank GmbH's internal risk management system. Key risk indicators are presented in the following:

Regulatory ratios: significant improvement



Increased own funds, primarily from net income in 2015, and reduced RWAs for credit risks due to the reparametrisation of central risk parameters constituted key drivers behind rising regulatory ratios.

Risk-bearing capacity: sound capital adequacy

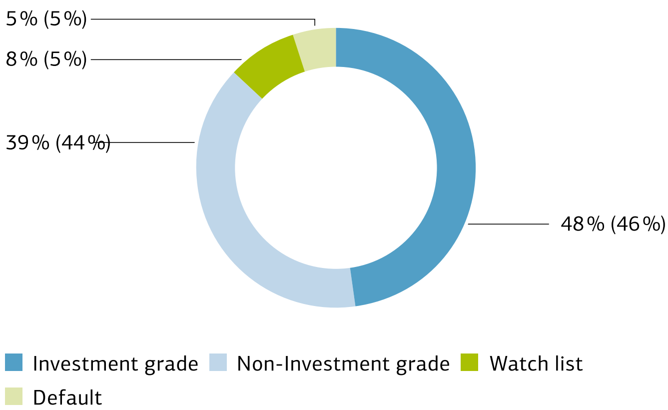


Excess cover is increasing. Risk-bearing capacity meets the 99.96 % solvency target. Capital adequacy improved moderately year-on-year, due in particular to the appropriation of net income for 2015.

Credit risk: good rating structure maintained

2016 (2015)

Breakdown of net exposure

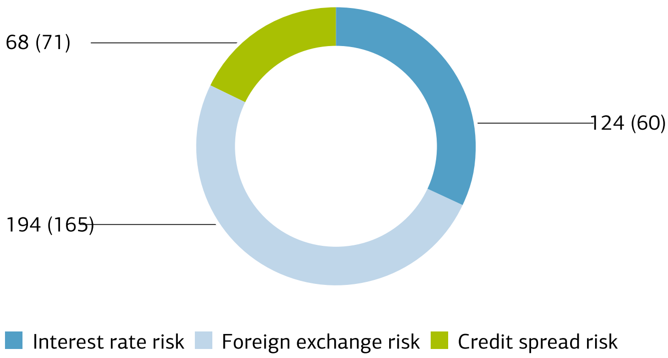


The investment grade class makes up 48 % of total net exposure. The watch list is growing, primarily due to new additions in the offshore oil segment and in merchant shipping. Based on the bank's risk assessment, which remains conservative, total risk provisions are largely unchanged compared to the previous year.

Market price risks: foreign exchange risks prevail

2016 (2015)

ECAP EUR in millions



Within market price risk, the majority of economic capital is still allocated to foreign exchange risk. The rise in ECAP requirements for interest rate and foreign exchange risk is due to an increase in the buffer for tolerated present value losses. In terms of foreign exchange risk, this means that even greater exchange rate fluctuations can be offset, especially as regards the US dollar exchange rate.

Significant developments and outlook

KfW IPEX-Bank's portfolio is in a stable position heading into 2017. Given the current challenges facing the global economy, however, the risk situation in individual sectors is being closely monitored, also with regard to existing uncertainties in commodity markets and emerging countries.

The oil price recovered significantly over the course of 2016 (+45 % to approximately USD 55/barrel), but is still at a low level. Subsequent developments will depend largely on the implementation of concerted production restrictions discussed at the OPEC meeting in December 2016 and the further development of fracking volumes in the USA.

The offshore oil portfolio is burdened with risk; in particular, drastic investment cuts made by oil companies are having a negative impact on demand for employment on drilling platforms. This investment trend among oil companies does not look set to bottom out or pick up again at present, so that market participants must adapt to the market environment by making cost adjustments. Insolvency risk for suppliers of offshore drilling units and early-stage oil service companies remains high. Initial restructuring measures are being implemented. The bank monitors this sub-portfolio closely.

The global steel industry is under considerable pressure due to worldwide overcapacity. Production capacity in China remains particularly high. As Chinese domestic demand falls, Chinese manufacturers are flooding global markets with basic steel products offered at dumping prices. This is not expected to have any major impact on KfW IPEX-Bank's relevant portfolio, as ratings for individual counterparties have already been downgraded.

The situation in merchant shipping remains difficult. Reduction of existing overcapacity continues to be hindered by high shipyard capacity, industrial policy measures in Korea and China and favourable prices and financing for shipbuilding. The major line shipping companies are attempting to address this through cost reductions, cooperation and takeovers. Weak charter markets in the tonnage segment and a high lay-up rate once again led to insufficient income levels in 2016. KfW IPEX-Bank has already taken steps to reduce the effects of the crisis in merchant shipping, which has been going on for eight years now, on its portfolio and will continue to do so as far as possible with further sales, particularly of its limited partnership *(Kommanditgesellschaft – KG)* financings. As a result of high cumulative financial losses and liquidity consumption among shipping companies over the last few years, the need for further restructuring requirements for individual counterparties cannot be ruled out.

In view of ongoing uncertainties, moderate deterioration in the credit quality of the overall portfolio is to be expected beyond 2016.

As in previous years, KfW IPEX-Bank continued to systematically develop its processes and instruments for risk management and control in the 2016 financial year, in due consideration of current banking supervisory requirements. Above all, this involved activities to draw up a recovery plan in line with the Minimum Requirements for the Design of Recovery Plans *(Mindestanforderungen an die Ausgestaltung von Sanierungsplänen – MaSan)*, which was submitted for the first time in December 2016, and the development and implementation of shadow banking limits. The German Federal Financial Supervisory Authority *(Bundesanstalt für Finanzdienstleistungsaufsicht – BaFin)* also granted KfW IPEX-Bank permission to use the extended elementary/slotting approach for commodity finance.

General conditions of risk management and control

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

Business and risk strategy

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

– Credit risks
– Market price risks (foreign exchange risk)
– Operational risks (primarily outsourcing risks, system, information technology and communication technology risks, legal risks including compliance risks)
– Liquidity risks
– Concentration risks
– Regulatory risks

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

KfW IPEX-Bank's Management Board has defined a risk strategy that sets out the principles of the bank's risk policy and thus the framework for undertaking and controlling risks. In accordance with the provisions of the German Minimum Requirements for Risk Management *(Mindestanforderungen an das Risikomanagement – MaRisk)*, this risk strategy addresses all business activities and risk types that are of significance to the bank. The risk strategy also takes into account its compatibility with the general risk policy framework within KfW Group. KfW IPEX-Bank's membership of KfW Group and its orientation as a non-trading book institution play a crucial role in determining the bank's risk culture. The bank's managers demonstrate an appropriate risk culture on a top-down basis. A clear definition of employee responsibilities, transparent and open communication and appropriate incentive structures underpin the bank's sound risk culture.

Organisation of risk functions

The Management Board is the highest decision-making body with responsibility for risk control and monitoring. As such, it is responsible above all for defining the risk strategy, risk standards and risk assessment methods. KfW IPEX-Bank's risk function involves the Risk Management, Credit Analysis and Special Asset Group departments as well as Risk Controlling, which are all separate from the front-office areas up to the level of the Management Board. This means the separation of functions between the front office and back office as called for in the German Minimum Requirements for Risk Management *(MaRisk)* is ensured at all levels of the organisational structure. In this context, the bank's risk functions are also set to be reorganised as of 1 April 2017, when Risk Controlling will split away from the Risk Management department to form a separate department. In addition, the Collateral Management team will move to the Special Asset Group due to synergies with that department, and activities performed by Approvals (so-called 'second vote') and Credit Analysis will be combined in two new credit risk management departments.

When loan submission documents are assessed for approval, Risk Management gives its vote – the second vote – taking risk aspects into account and adhering to the principle of separating front-office and back-office functions. Moreover, it identifies and evaluates risks in the portfolio at an early stage and determines measures to reduce risks. Risk Management also reviews and approves ratings assigned to new and existing project financings. As a separate organisational unit in Risk Management, the

Collateral Management team is responsible for the proper provision and valuation of all collateral. It monitors the eligibility of collateral when determining risk indicators and, in this context, continuously monitors the development of the value of collateral. The Risk Instruments and Risk Control team is responsible for maintaining and enhancing the tools used (balance sheet recognition, rating, pricing) as well as for monitoring risk functions outsourced to KfW. It is also responsible for portfolio management, operational limit management, operational risks and business continuity management.

Credit Analysis is responsible for conducting regular analyses and ratings of corporate and object financings, for both new and existing transactions. It also produces sector analyses.

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

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

The Internal Auditing department analyses the effectiveness and adequacy of the risk management system independently of processes and reports directly to the Management Board. It thereby makes an important contribution to ensuring the effectiveness of the internal control system. The planning and performance of audits are risk-based.

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

Internal capital adequacy assessment process

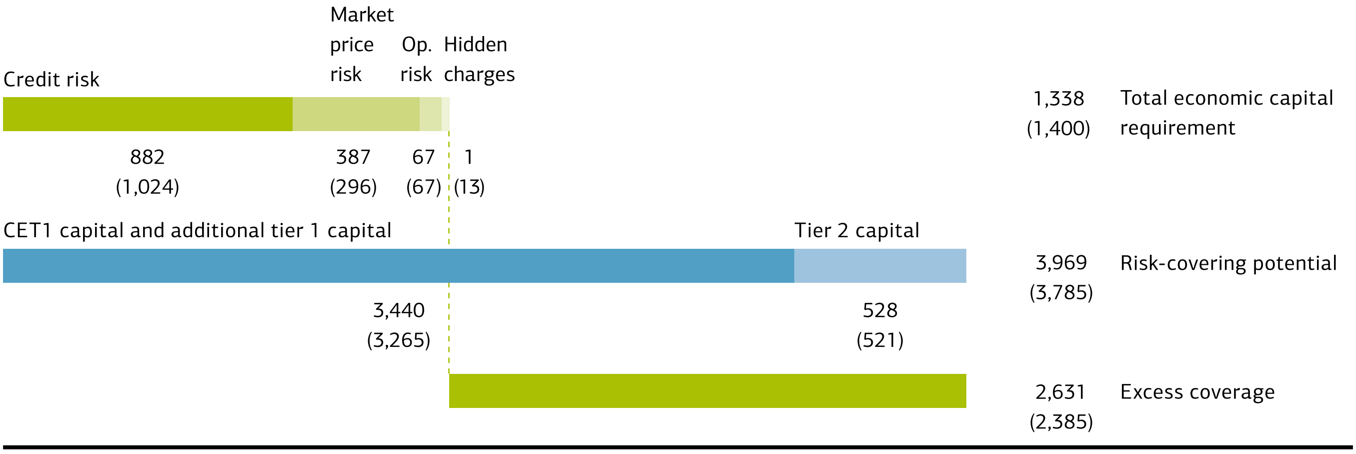
A key aspect of KfW IPEX-Bank's risk-bearing capacity plan (internal capital adequacy process, or ICAAP) is the fact that economic and regulatory provisions concerning risk-bearing capacity represent overarching objectives that are equally important. In concrete terms, this means that all risk monitoring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

As of 31 December 2016, the risk-covering potential was EUR 3,969 million, consisting of:

EUR 2,841 million in CET1 capital,
EUR 599 million in additional tier 1 capital, and
EUR 528 million in tier 2 capital.

The bank's economic risk-bearing capacity is adequate and meets the 99.96 % solvency target. As of 31 December 2016, excess risk-covering potential above total capital requirements increased from EUR 2,385 million in 2015 to EUR 2,631 million. This rise was largely due to the increase in risk-covering potential, which was in turn primarily the result of the appropriation of net income for 2015. In addition, the capital required to cover credit risk – as the bank's most relevant risk type – fell from EUR 1,024 million in the previous year to EUR 882 million. This decline was mainly attributable to regular updating of correlations in the credit portfolio model and of central risk parameters (loss given default and exposure at default).

Economic risk-bearing capacity as of 31 Dec. 2016
EUR in millions



In brackets: figures as of 31 Dec. 2015

Reparametrisation of the risk parameters loss given default and exposure at default also led to a reduction in regulatory capital requirements for credit risk. Combined with the rise in risk-covering potential, the regulatory capital ratios for KfW IPEX-Bank are much higher than in the previous year. As of 31 December 2016, the total capital ratio stood at 20.5 % (previous year: 18.2 %), the tier 1 capital ratio at 17.7 % (previous year: 15.7 %) and the CET1 capital ratio at 14.7 % (previous year: 12.6 %). All regulatory capital requirements were met at all times in 2016.

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

Once a quarter, KfW IPEX-Bank evaluates a forecast scenario (expected scenario), a downturn scenario (slight economic downturn) and a stress scenario (severe recession) and their impact on its economic and regulatory risk-bearing capacity.

The forecast scenario gives a preview of the bank's risk-bearing capacity at the end of the year, while the downturn and stress scenarios demonstrate the effects on earnings and the changes in capital requirements over the next twelve months.

A further control variable used to avoid excessive indebtedness at KfW IPEX-Bank is the leverage ratio, which is an integral part of the capital adequacy process. Like the variables for determining risk-bearing capacity, the leverage ratio is examined using additional forward-looking approaches. Compliance with thresholds set internally by the bank is monitored quarterly.

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

Stress tests and test scenarios

In addition to economic scenarios used in the capital adequacy process, further stress tests are performed which take concentration risks into account and are used to examine the resilience of KfW IPEX-Bank's risk-bearing capacity. In addition to general stress tests (in accordance with Article 177 of the CRR and other regulations), the latest potential macroeconomic risks are used as a basis for variable scenario stress tests. In 2016, these tests focused on scenarios involving the United Kingdom's exit from the EU, sustained low oil prices over a long period of time and the crisis in 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 circumstances. The potential effects of planned regulatory reforms in the context of Basel III on KfW IPEX-Bank's capital ratios were also simulated in 2016.

Credit risks

Lending is the core business of KfW IPEX-Bank. An important focus of overall risk management therefore lies in controlling and monitoring risks in the lending business. Counterparty default risk is the most significant category of credit risk, which essentially comprises the risk subcategories of credit risk in the narrower sense, counterparty risk, securities risk, country risk, risk arising from foreign currency loans extended to unsecured borrowers and special financing risk. Migration risks (or credit rating risks) also have a significant effect on credit risk exposure. These are included in the above stress tests, among other parts of the bank's risk management activities.

Measurement of counterparty default risk

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

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

As required by the CRR, the bank's IRBA rating systems are used to generate separate estimates of the central risk parameters[1]:

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

With the exception of project, ship and aircraft financing transactions, these processes are based on scorecards and follow a uniform, consistent model architecture. In the case of project, ship and aircraft financing, various simulation-based rating modules, licensed from an external provider, are used to measure counterparty default risk. In such cases, the risk assessment is mainly determined by the cash flows generated by the financed 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. The range of probabilities of default and the average probability of default are defined for each master scale subclass.
There are detailed organisational instructions for each rating process, which govern in particular responsibilities, competencies and control mechanisms. Comparability between internal ratings and external ratings by rating agencies is assured by mapping the external ratings onto the master scale.

Regular validation and further development of the rating processes ensures that it is possible to respond promptly to changing general conditions. The objective is to continuously ensure the suitability of the calibration and selectivity of all rating processes.

Both the outstanding volume of lending and the valuation of collateral exert a significant influence on the amount of default. As part of the collateral valuation for eligible collateral[2], expected net proceeds from realisation of collateral in the event of default are estimated over the entire tenor of the loan. Collateral value adjustments are applied in this process. In the case of personal collateral, this takes account of the probability of default and loss ratio of the collateral provider. In the case of security in rem, deductions are attributable not only to market price fluctuations but also, and principally, to losses in value due to depreciation. The value thus calculated is an important component of loss estimates (LGD).

Depending on the availability of data, the various valuation procedures for individual collateral types are based on internal and external historical loss data as well as on expert estimates. The valuation parameters are subject to a regular validation process. A reliable valuation of the collateral position is therefore guaranteed at the level of individual collateral items.

Interaction between risk properties of the individual commitments in the credit portfolio is assessed using an internal portfolio model. Pooling together large parts of the portfolio into individual borrowers or borrower groups harbours the risk of major defaults, which threaten business continuity. Portfolio

[1] In the elementary approach, a (transaction-specific) slotting grade is assigned instead of estimating the PD and LGD. This grade is transformed into a risk weighting in accordance with supervisory guidelines.
[2] In order for collateral to be eligible, it must be possible to quantify the risk-mitigating effect of the collateral reliably and realistically, and the Collateral Management team must take all necessary and possible procedural steps to ensure that the mitigating effect of the collateral taken as a basis when measuring risk can actually be realised. Apart from eligible collateral there is also non-eligible collateral, although it is not taken into account when measuring risk.

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. This involves monitoring individual exposures and concentration risks. Limits are based on a limit anchor value and are set per group of connected clients, per individual counterparty (only for shadow banking from 1 January 2017), and per country. They are also set for selected sectors. Limits are applied based on the variables of net exposure and economic capital. Individual limits deviating from standard limits may be defined, taking into account internal guidelines concerning the allocation of individual limits.

Risk guidelines

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

Portfolio management

In cases where trigger events occur, portfolio management helps to improve the risk/return ratio of KfW IPEX-Bank's portfolio by identifying ways to reduce risk and by bringing about decisions. Portfolio management is also included in the annual planning process in order to integrate the risk and portfolio perspective into both the strategy process and group business sector planning. Furthermore, portfolio management creates transparency for the front-office departments regarding the effect of portfolio measures on performance.

Portfolio Risk Committee

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

Intensified loan management and problem loan processing

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

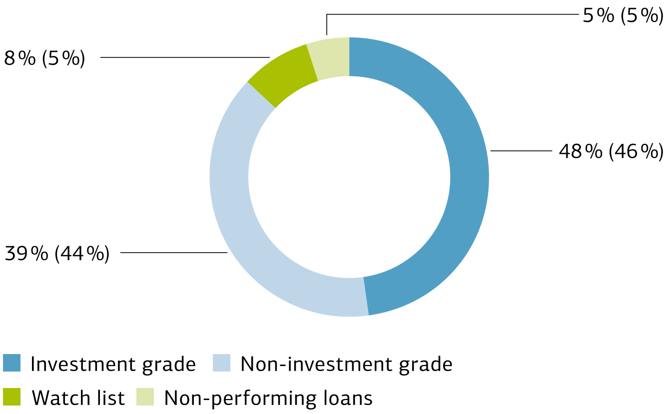
Counterparty Risk Committee

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

Structure of counterparty default risk

Net exposure by rating class[1)]

2016 (2015), Total net exposure: EUR 7.6 billion

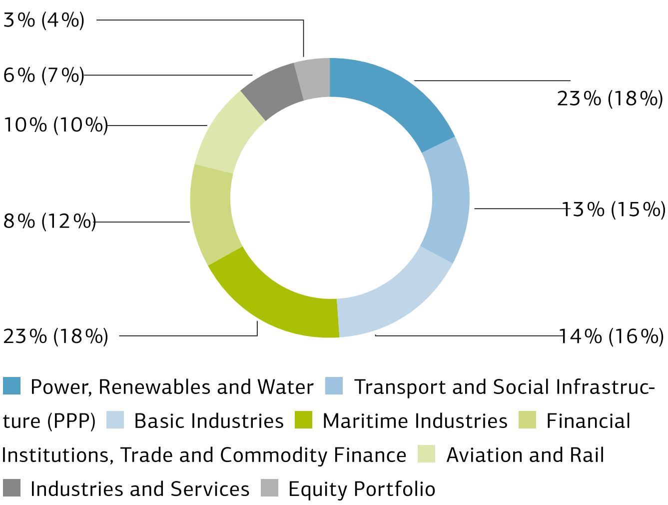


1) The net exposure for performing loans can be calculated as the maximum function of economic and political net exposure.

The credit rating structure of the performing portfolio has changed slightly compared with the previous year. The average probability of default of the performing portfolio rose from 1.22% to 1.41% in the 2016 financial year in connection with an increase in the watch list, primarily as a result of new additions in the offshore oil segment and in merchant shipping. Total net exposure is EUR 7.6 billion. The investment grade class makes up 48% of the total, the non-investment grade category 39%, watch list loans represent 8% of net exposure, and NPL loans represent 5%.

Economic capital requirements by sector department

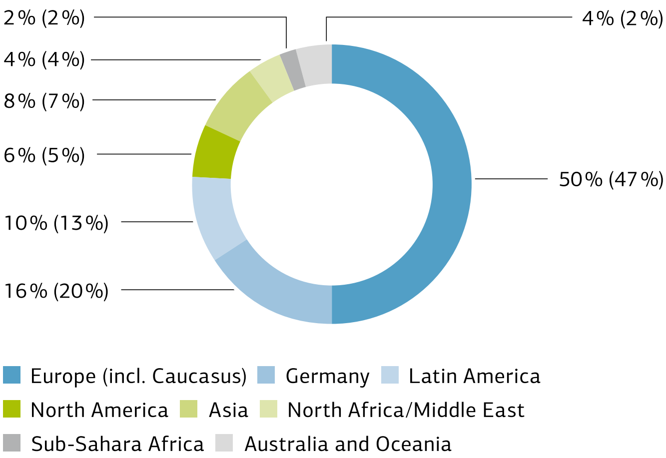
2016 (2015), Total ECAP: EUR 882 million



The above overview shows the diversification of the portfolio across the bank's sector departments. The largest shares of economic capital are allocated to the sector departments of Maritime Industries and Power, Renewables and Water, with 23% each.

Economic capital requirements by region

2016 (2015), Total ECAP: EUR 882 million



In regional terms, business is focused on Europe, including Germany, where 66% of economic capital is allocated to counterparty default risk.

Risk provisions for counterparty default risks

All identifiable loan default risks in the lending business are 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 296 million as of 31 December 2016. 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 provisions for the lending business for disbursed loans, financial guarantees and irrevocable loan commitments, structured according to sector department, was as follows as of 31 December 2016:

Specific loan loss provisions

Sector department	31 Dec. 2016 EUR in millions	31 Dec. 2015 EUR in millions	Change EUR in millions
Maritime Industries	196	162	34
Power, Renewables and Water	36	40	–4
Financial Institutions, Trade and Commodity Finance	22	1	21
Transport and Social Infrastructure (PPP)	18	20	–2
Basic Industries	11	36	–25
Aviation and Rail	7	13	–6
Industries and Services	6	15	–9
Equity Portfolio	0	7	–7
Total	**296**	**294**	**2**

Portfolio loan loss provisions as of 31 December 2016 by sector department were as follows:

Portfolio loan loss provisions

Sector department	31 Dec. 2016 EUR in millions	31 Dec. 2015 EUR in millions	Change EUR in millions
Maritime Industries	37	23	14
Power, Renewables and Water	20	20	0
Aviation and Rail	13	13	0
Financial Institutions, Trade and Commodity Finance	12	13	–1
Basic Industries	11	11	0
Transport and Social Infrastructure (PPP)	11	14	–3
Industries and Services	4	7	–3
Equity Portfolio	1	1	0
Other	1	0	1
Total	**110**	**102**	**8**

Write-downs on equity investments totalling EUR 1 million were also required during the financial year for solvency reasons. There were no write-downs on securities in the investment portfolio or securities held as current assets for solvency reasons in 2016.

Market price and liquidity risks

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

Market price risks of relevance to the bank are interest rate risk, foreign exchange risk and credit spread risk. Interest rate risk is defined as the risk of loss (in value) caused by a change in the interest structure adverse to KfW IPEX-Bank. Foreign exchange risk results from the risk of loss (in value) caused by a change in exchange rates adverse to KfW IPEX-Bank. Credit spread risk is defined as the risk of loss (in value) arising from credit spread changes adverse to KfW IPEX-Bank. At KfW IPEX-Bank, credit spread risk plays a role for securities on the assets side held for liquidity management purposes as well as for lending in the form of securities. The risk of issuer default is not allocated to credit spread risk; rather, it falls under counterparty default risk.

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

Interest rate risk and foreign exchange risk

In line with the business and risk strategy of KfW IPEX-Bank, interest rate risk generally plays a subordinate role from an overall risk perspective, given that the bank's interest rate position is mostly closed. The bank has an open interest rate position arising from the variable-interest EUR and USD short-term book and provisions for pensions in the EUR long-term book. The general rule for the entire interest book is to avoid interest rate risk. In terms of both fixed-income and variable-interest items, interest rate risks will only be accepted if they can no longer be efficiently hedged. Interest rate risk is measured on a monthly basis and monitored and managed by means of a risk budget.

The general rule for foreign exchange risk is that foreign currency positions may not be entered into for the purpose of generating income from exchange rate fluctuations. Any individual foreign exchange risks arising indirectly in the course of business are closed, wherever this is possible and economically viable, through refinancing or hedging. Any residual risks are managed at the macro level. In order to stabilise fluctuations in the regulatory capital requirement caused by changes in exchange rates, a limited part of the USD loan book is financed through a fund denominated in USD set up to cover general banking risks as per Section 340g of the German Commercial Code. This is carried out to only a limited extent for the purpose of stabilising the regulatory risk-bearing capacity, and not to generate short-term income from exchange rate fluctuations. The level of foreign exchange risk is measured on a regular basis and restricted by means of a risk budget.

Interest rate risk and foreign exchange risk are measured and controlled on a net present value basis using the economic capital concept. In this process, a present value loss is calculated that is highly unlikely to be exceeded within one year across the entire portfolio of KfW IPEX-Bank in the event of possible changes in the yield curve or foreign exchange rates. The economic capital requirement both for interest rate risk and foreign exchange risk is composed of a capital buffer for present value losses and a risk value. The capital buffer for present value losses is for a present value loss that is accepted by the bank's management and may occur within one year.

Furthermore, any losses in value that may occur when a position is closed are measured as value at risk (VaR) with a holding period of two months and a confidence level of 99.96 %. Diversification effects between interest rate and foreign exchange risks that would reduce overall risk are not taken into account. Since two separate models are used, which are both based on a variance/covariance approach, a conservative assumption is made that there is a completely positive correlation between both risks.

Based on the requirements laid down by Article 448 (b) of the CRR, the following table shows the present value of the interest position, the economic capital requirement calculated for the interest rate risk, and the interest rate sensitivity as of 31 December 2016. It also shows the reduction in present value for the regulatory interest rate shock scenario as specified in Circular 11/2011 issued by the German Federal Financial Supervisory Authority (BaFin) in absolute terms and as a proportion of regulatory own funds:

Currency

	EUR	USD	GBP	CHF	JPY	Other	Total
	EUR in millions	**EUR in millions**	**EUR in millions**	**EUR in millions**	**EUR in millions**	**EUR in millions**	**EUR in millions**
Present value interest book	2,902.9	640.4	68.6	1.1	0.3	58.3	3,671.6
Economic capital requirement for interest rate risk (99.96 %/two-month holding period)	–	–	–	–	–	–	124.1
Interest rate sensitivity (change in present value given an increase in the interest rate by one basis point)	0.268	–0.063	–0.030	–	–	–0.021	0.154
Reduction in present value given regulatory interest rate shock (+200/–200 bp)	–	–	–	–	–	–	74.5
As a proportion of regulatory own funds[1]	–	–	–	–	–	–	1.88 %

[1] Own funds as of 31 Dec. 2016: EUR 3,968.74 million

The indicators of interest rate risk clearly show that the interest rate risk position of KfW IPEX-Bank is comparatively small. Like interest rate risk, foreign exchange risk plays a subordinate role from an overall risk perspective. The following table provides an overview of the economic capital requirement and regulatory capital requirements for foreign exchange risk as of 31 December 2016.

Economic capital requirement for foreign exchange risk	Regulatory capital requirements for foreign exchange risk
EUR in millions	**EUR in millions**
194.4	5.3

Credit spread risk in the securities portfolio

All positions in the securities portfolio of KfW IPEX-Bank are subject to a buy-and-hold approach. The bank does not engage in proprietary trading in order to generate short-term earnings. The securities portfolio is composed of the liquidity portfolio, the HQLA (High Quality Liquid Assets) portfolio and other securities (in particular lending in the form of securities).

The economic capital concept is used to measure credit spread risk in the securities portfolio. 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 economic capital requirement for the credit spread risk as of 31 December 2016 was EUR 68.3 million.

Institutional liquidity risk

Institutional liquidity risk (or solvency risk) is the risk of not settling payment obligations at all, on time and/or to the required extent. KfW IPEX-Bank's solvency risk is considerably limited by an existing refinancing agreement with KfW. The refinancing agreement guarantees KfW IPEX-Bank access to liquidity through KfW at any time (at market conditions). KfW IPEX-Bank also has marketable securities as well as access to credit lines with KfW in order to ensure that it is sufficiently capable of meeting its payment obligations at all times in accordance with Section 11 of the German Banking Act in conjunction with the German Liquidity Regulation.

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

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

Market liquidity and funding risk

Market liquidity risk is the risk of losses (in value) if, as a result of a lack of liquidity in the market, assets cannot be traded at all, on time, in full, in sufficient quantity and/or at market conditions. Funding risk is the risk of losses (in value) due to increased market rates for obtaining funding.

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

Operational risks

Operational risk is the risk of loss resulting from inadequate or failed internal processes or systems, human error or external events. Risks of particular significance to KfW IPEX-Bank are outsourcing risks, system, information technology and communication technology risks as well as legal risks including compliance risks.

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

KfW IPEX-Bank's outsourcing monitoring activities are divided into monitoring measures that are intrinsic to processes, measures that are performed alongside processes, and those that are independent of processes. The main points of contact in the relevant departments are responsible for specialised process-dependent monitoring, while the outsourcing officer or sourcing managers are responsible for formal aspects of these monitoring activities on a centralised basis. The bank's Compliance team provides centralised support for monitoring measures performed alongside processes. Internal Auditing and the bank's external auditor carry out process-independent monitoring. Internal Auditing follows up any observations made with regard to outsourcing activities separately. The Management Board is regularly informed of the current status of these activities in coordination with the service provider.

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

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

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

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

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

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

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

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

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

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

Risk concentrations

Concentration risks are principally of importance to KfW IPEX-Bank. The bank differentiates between intra-risk concentrations (within one risk type) and inter-risk concentrations (spanning several risk types).

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

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

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

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

Regulatory risk

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

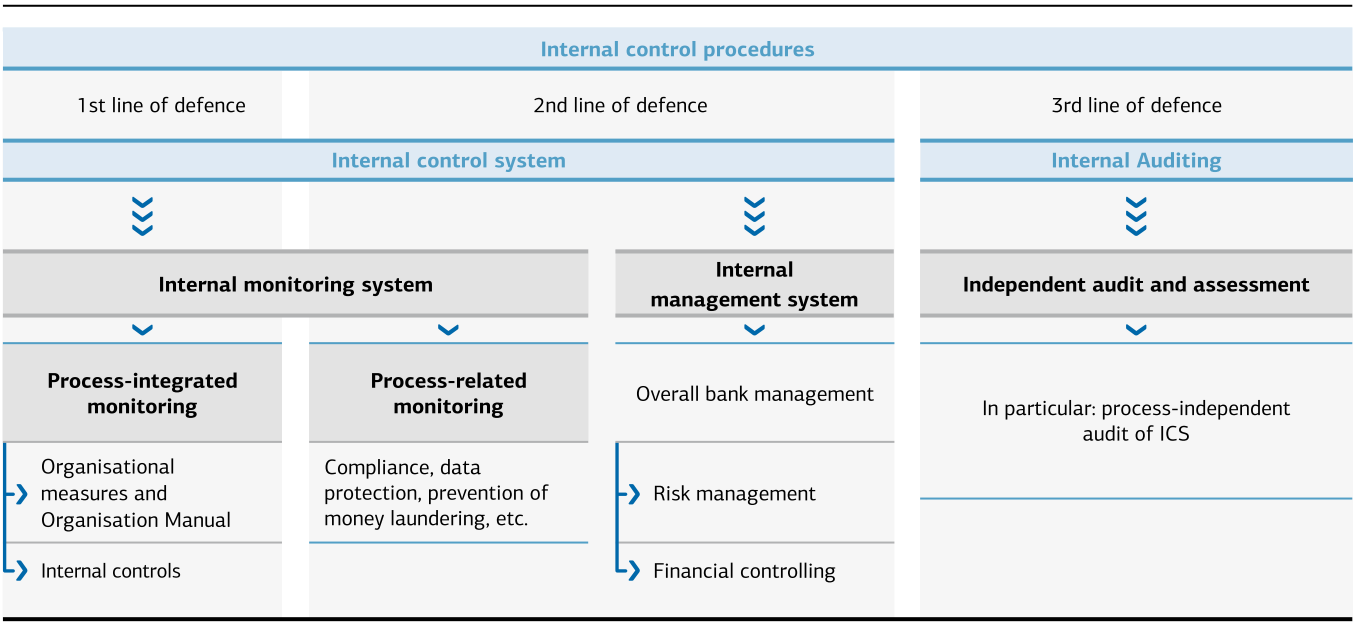
Regulatory risk is accounted for as part of the capital adequacy process using a conservative traffic light system as a management tool and early warning instrument in accordance with regulatory capital requirements. In addition, KfW IPEX-Bank's capitalisation and possible capitalisation measures are continuously reviewed in the course of capital planning and in collaboration with the bank's shareholder. Furthermore, KfW IPEX-Bank actively tracks changes in its legal environment, enabling regulatory changes to be identified at an early stage and appropriate measures to be taken. Where required, regulatory risks (e.g. in connection with the finalisation of capital requirements regulations in accordance with Basel III) are also analysed and measured as part of scenario observations.

Internal control procedures

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

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

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



Internal Auditing

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

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

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

Internal control system – Process-related monitoring – Compliance

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

Internal control system – Process-integrated monitoring – Internal controls

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

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

Accounting-related internal control system

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

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

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

[3] COSO = Committee of Sponsoring Organisations of the Treadway Commission

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

Forecast Report

KfW anticipates global economic growth of 3.4% in 2017, somewhat greater than in 2016. There will be a moderate upward trend in industrialised nations (forecast for 2017: 1.7%) and developing and emerging countries (forecast: 4.6%). Economic momentum in the USA is expected to improve moderately compared to the previous year. By contrast, the United Kingdom is likely to experience increasingly negative consequences as a result of the Brexit vote, leading to an appreciable slowdown in growth. In the group of developing and emerging countries, the situation is expected to stabilise in Brazil and Russia, both large countries and both affected by crises, in 2017. China's gradual economic slowdown will continue, yet a 'hard landing' is unlikely. Ongoing robust growth is anticipated in several other emerging countries and a number of developing countries. However, this global economic outlook is subject to substantial economic and geopolitical risks. A monetary policy turnaround, as is currently being implemented by the US Federal Reserve and which is likely to continue, entails difficulties in adapting to this new policy and affects other countries. The crisis in the euro area is not yet over. The Brexit vote, Donald Trump's election as US President and the failed referendum in Italy have created uncertainty among investors in these countries, but also among their trading partners. Proponents of free trade and integration are moving increasingly onto the defensive in the USA and Europe. Greater investment and structural reforms (e.g. labour market, competition, fiscal policy, infrastructure, financial sector) are needed worldwide in order to achieve stronger, sustainable economic growth. Alongside these economic risks, the global economy also remains subject to geopolitical risks, such as military conflicts in many parts of the world and associated threats posed by terrorism, as well as challenges involved in the movement of refugees.

Growth will remain stable in the member states of the European Economic and Monetary Union (EMU) in 2017, but will not exceed a moderate pace. Consumer spending will continue to drive this economic recovery, benefiting from the improved situation on the labour market. The employment rate is approaching 2008 levels, but it is still taking too long to reduce unemployment. Fiscal policy is expected to provide a small amount of support at best. Despite initial steps towards normalisation, expansionary monetary policy is keeping funding costs low. This, combined with an already high capacity utilisation rate, would suggest greater growth dynamics in corporate investment. However, although general conditions appear positive from a fundamental perspective, they are coming up against the political risks mentioned above, which are making it much harder for companies to plan their investments and counteracting a sharp acceleration in investment activity, which has been weak for many years now. Overall, KfW expects GDP to grow by around 1.5% in real terms in the EMU countries in 2017. Although its recovery remains intact, per capita production in the euro area economy is still lower than it was ten years ago. This is contributing towards political tensions within the euro area, especially since the countries hit particularly hard by the debt crisis are taking a long time to catch up.

The German economy is in good shape all in all at the start of 2017, especially given the difficult international environment. The main driver of economic growth – domestic demand – remains strong. Consumer spending is likely to experience solid growth again in 2017 as employment continues to rise. However, the rising inflation rate will hold down growth in real wages, meaning that consumer spending is expected to increase less strongly than in 2016. The same will tend to apply to housing construction, where rising interest rates are expected to have a slight braking effect on growth. Although the high utilisation of industrial capacity, in itself, suggests a noticeable increase in corporate investment, this rise looks likely to be muted as the consequences of the Brexit vote and the USA's new stance on trade policy cannot be predicted reliably at present. The risk of a less open world economy in the future makes investment planning difficult, especially in Germany's key export sectors. Irrespective of this, exports are expected to recover somewhat, not least because key emerging countries like Brazil and Russia are likely to emerge from recession. All in all, KfW expects real growth of 1.3% in 2017. This would be around half a percentage point lower than in 2016, with most of the expected loss of pace attributable to a reduction in the number of working days. At the end of 2016, publicly available economic growth forecasts for 2017 ranged from 0.9% to 1.7%.

On the basis of these global economic conditions, demand for exports from Germany and Europe, and for associated financing, is likely to be stable. High liquidity will continue to dominate the lending market as interest rates remain low. Combined with the ongoing pressure to invest facing institutional investors, this will create even more intense competition. KfW IPEX-Bank will continue to focus on working with its market partners on a close and trusting basis in 2017. Through this active collaboration, its objective is to structure tailor-made syndicate financing to jointly provide the export and investment projects of German and European industry with the best possible support.

KfW IPEX-Bank aims to reinforce its position in 2017 as a dependable specialist financier and strong partner to key industries that are vital to the German and European economies. The predicted development of sales markets in industrialised and emerging countries offers continued export opportunities. KfW IPEX-Bank will therefore continue in its role in supporting German and European companies in 2017, assisting them with their international activities by providing tailored medium and long-term financing for exports and foreign investment projects.

Despite the challenges outlined above, the bank believes there will be good market opportunities across all sector departments in the coming reporting year. In regional terms, the focus will particularly be on growth markets that are important for the German and European economies in terms of exports and direct investment. Together with industrialised countries, these primarily include emerging markets in Asia and countries in the Andean region.

KfW IPEX-Bank has established its position on the market through its proven structuring expertise, which makes it a leading specialist financier. The bank is maintaining its sales and marketing activities at a high level across all sector departments and regions. It is selectively adding to its product portfolio and moderately expanding its network of foreign representative offices, which is expected to help build on existing customer relationships and tap into new customer groups for financings in the E&P business sector. The bank's strategic focus is also designed to generate a steady share of new business that contributes to environmental and climate protection. Based on growing competition and a portfolio management strategy geared towards quality, KfW IPEX-Bank's target for new commitments in the 2017 financial year is EUR 15.9 billion. Moderate annual growth in new commitments is expected in subsequent years. This target is subject to the customary forecasting uncertainty arising from the unpredictability of major factors that influence the course of the bank's business. This uncertainty also applies to the forecast result for 2017, which will depend, as in previous years, on the level of risk provisions required in accordance with our conservative benchmarks.

As part of the implementation of the profit transfer agreement, KfW IPEX-Bank will transfer its entire profit under German commercial law to KfW Beteiligungsholding GmbH for the first time for the 2016 financial year. A decision will subsequently be made on the basis of the bank's multi-annual capital planning as to whether KfW IPEX-Bank's capital base will be strengthened by reinvesting parts of the transferred profits in the form of a shareholder contribution or by means of other appropriate capital measures.

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

Financial Statements of KfW IPEX-Bank 2016

Balance Sheet of KfW IPEX-Bank as of 31 December 2016

Assets

	31 Dec. 2016				31 Dec. 2015			
	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands
1. Cash reserves								
a) cash on hand			8				6	
b) funds with central banks			0				0	
of which: with the Deutsche Bundesbank	*0*				*0*			
c) funds held with postal giro offices			0	**8**			0	**6**
2. Loans and advances to banks								
a) mortgage loans			0				0	
b) municipal loans			100,164				691,495	
c) other loans and advances			1,382,050	**1,482,214**			964,633	**1,656,128**
of which: due on demand	*1,027*				*1,266*			
of which: collateralised by securities	*0*				*0*			
3. Loans and advances to customers								
a) mortgage loans			687,816				765,556	
b) municipal loans			1,246,336				1,198,260	
c) other loans and advances			23,200,254	**25,134,406**			22,386,144	**24,349,960**
of which: collateralised by securities	*0*				*0*			
4. Bonds and other fixed-income securities								
a) money market instruments								
aa) of public issuers		0				0		
of which: eligible as collateral with the Deutsche Bundesbank	*0*				*0*			
ab) of other issuers		0	0			0	0	
of which: eligible as collateral with the Deutsche Bundesbank	*0*				*0*			
b) bonds and notes								
ba) of public issuers		0				0		
of which: eligible as collateral with the Deutsche Bundesbank	*0*				*0*			
bb) of other issuers		2,329,424	2,329,424			2,233,320	2,233,320	
of which: eligible as collateral with the Deutsche Bundesbank	*2,129,272*				*2,026,866*			
c) own bonds			0	**2,329,424**			0	**2,233,320**
Nominal value	0				0			
5. Investments				**95,636**				**95,954**
of which: in banks	*360*				*360*			
of which: in financial services institutions	*0*				*0*			
6. Assets held in trust				**239,567**				**195,895**
of which: loans held in trust	*239,567*				*195,895*			
7. Intangible assets:								
a) internally generated industrial property rights and similar rights and assets			0			0		
b) purchased concessions, industrial property rights and similar rights and assets and licences to such rights and assets			357			406		
c) goodwill			0			0		
d) payments on account			0	**357**		0		**406**
8. Property, plant and equipment				**410**				**327**
9. Other assets				**100,041**				**5,242**
10. Prepaid expenses and deferred charges								
a) from issuing and lending			837				1,312	
b) other			21,590	**22,427**			27,022	**28,334**
Total assets				**29,404,490**				**28,565,572**

Liabilities and equity

	31 Dec. 2016				31 Dec. 2015			
	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands
1. Liabilities to banks								
a) registered Mortgage Pfandbriefe in issue			0				0	
b) registered Public Pfandbriefe in issue			1,113,203				939,976	
c) other liabilities			22,561,549	**23,674,752**			21,821,517	**22,761,493**
of which: due on demand	*27,651*				*13,799*			
of which: registered Mortgage Pfandbriefe pledged as collateral for loans taken up	*0*				*0*			
and registered Public Pfandbriefe	*0*				*0*			
2. Liabilities to customers								
a) registered Mortgage Pfandbriefe in issue			0				0	
b) registered Public Pfandbriefe in issue			0				0	
c) savings deposits								
ca) with agreed period of notice of three months		0				0		
cb) with agreed period of notice of over three months		0	0			0	0	
d) other liabilities			372,454	**372,454**			555,750	**555,750**
of which: due on demand	*10,742*				*22,674*			
of which: registered Mortgage Pfandbriefe pledged as collateral for loans taken up	*0*				*0*			
and registered Public Pfandbriefe	*0*				*0*			
3. Liabilities held in trust				**239,567**				**195,895**
of which: loans held in trust	*239,567*				*195,895*			
4. Other liabilities				**108,607**				**70,147**
5. Deferred income								
a) from issuing and lending			6,976				7,370	
b) other			26,191	**33,167**			29,192	**36,562**
6. Provisions								
a) provisions for pensions and similar commitments			123,919				116,562	
b) tax provisions			6,629				27,400	
c) other provisions			54,029	**184,577**			52,251	**196,213**
7. Subordinated liabilities				**948,677**				**918,527**
8. Fund for general banking risks				**368,248**				**356,544**
9. Equity								
a) called capital								
subscribed capital		2,100,000				2,100,000		
less uncalled outstanding contributions		0	2,100,000			0	2,100,000	
b) capital reserves			949,992				949,992	
c) retained earnings								
ca) legal reserve		0				0		
cb) reserves for shares in a company in which KfW IPEX-Bank holds a controlling or majority stake		0				0		
cc) statutory reserve		0				0		
cd) other retained earnings		424,449	424,449			424,449	424,449	
d) balance sheet profit			0	**3,474,441**			0	**3,474,441**
Total liabilities and equity				**29,404,490**				**28,565,572**
1. Contingent liabilities								
a) from the endorsement of rediscounted bills		0				0		
b) from guarantees and guarantee agreements		1,639,671				1,961,200		
c) assets pledged as collateral on behalf of third parties		0	1,639,671			0	1,961,200	
2. Other obligations								
a) commitments deriving from non-genuine repurchase agreements		0				0		
b) placing and underwriting commitments		0				0		
c) irrevocable loan commitments		6,644,135	6,644,135			7,689,259	7,689,259	

Income Statement of KfW IPEX-Bank GmbH from 1 January 2016 to 31 December 2016

Expenses

	1 Jan. – 31 Dec. 2016				1 Jan. – 31 Dec. 2015			
	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands
1. Interest expense			338,253				365,204	
less positive interest from banking business			–1,383	**336,870**			–270	**364,934**
2. Commission expense				**5,986**				**3,483**
3. Administrative expense								
a) personnel expense								
aa) wages and salaries		73,123				73,867		
ab) social insurance contributions, expense for pension provision and other employee benefits		11,815	84,938			24,270	98,137	
of which: for pension provision	*3,923*				*16,567*			
b) other administrative expense			131,790	**216,728**			117,757	**215,894**
4. Depreciation and impairment on intangible assets and property, plant and equipment				**176**				**148**
5. Other operating expenses				**28,719**				**7,600**
6. Write-downs of and value adjustments on loans and specific securities and increase in loan loss provisions				**164,607**				**84,877**
7. Appropriations to the fund for general banking risks				**11,703**				**36,826**
8. Write-downs of and value adjust ments on investments, shares in affiliated companies and securities treated as fixed assets				**40**				**0**
9. Taxes on income				**2,838**				**93,208**
10. Profit transferred due to a profit pooling, profit transfer or partial profit transfer agreement				**105,050**				**0**
11. Net income for the year				**0**				**143,540**
Total expenses				**872,717**				**950,510**
1. Net income for the year				**0**				**143,540**
2. Allocations to other retained earnings				**0**				**–143,540**
Balance sheet profit				**0**				**0**

Income

	1 Jan. – 31 Dec. 2016				1 Jan. – 31 Dec. 2015			
	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands
1. Interest income from								
a) lending and money market transactions		665,091				679,740		
less negative interest from lending and money market transactions		–2,048	663,043			–1,640	678,100	
b) fixed-interest securities and debt register claims			9,722	**672,765**			19,968	**698,068**
2. Current income from								
a) shares and other non-fixed income securities			0				491	
b) investments			9				8	
c) shares in affiliated companies			0	**9**			0	**499**
3. Commission income				**158,816**				**191,623**
4. Earnings on allocations to investments, shares in affiliated companies and securities treated as fixed assets				**0**				**8,766**
5. Other operating income				**41,127**				**51,554**
Total income				**872,717**				**950,510**

Notes

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

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

Accounting and valuation regulations

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

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

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

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

There are no held-for-trading securities.

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

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

Property, plant and equipment and intangible assets are reported at acquisition or production cost as defined by Section 255 of the German Commercial Code, reduced by ordinary depreciation/amortisation over their expected useful life. Additions and disposals of fixed assets during the course of the year are depreciated pro rata temporis (i.e. on an exact monthly basis). A compound item is set up for low-value fixed assets with purchase costs of EUR 150 to EUR 1,000, which is depreciated on a straight-line basis over five years. The bank does not capitalise internally generated intangible assets in accordance with Section 248 (2) of the German Commercial Code.

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

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

KfW IPEX-Bank issues registered Public Pfandbriefe. These are purchased in their entirety by KfW. The Pfandbriefe are accordingly reported under Liabilities to banks. The balance sheet template is based on the requirements in force for Pfandbrief banks (notes to the Template 1 annex, Section 2 of the Ordinance Regarding the Accounting System for Banks and Financial Services Institutions).

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

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

	31 Dec. 2016
	in % p.a.
Interest rate for accounting purposes	4.01
Projected unit credit dynamics	2.20
Index-linking of pensions[1)]	1.00 to 2.50
Staff turnover rate	3.50

[1)] Varies according to applicable pension scheme

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

Deferred tax assets result from differences in value between the commercial and the tax balance sheet with regard to the valuation of loans and advances to banks and customers, bonds and other fixed-income securities, equity investments and intangible assets as well as the recognition and valuation of provisions and of the fund for general banking risks. There are no deferred tax liabilities. A nominal tax rate of 31.92 % is applied for the valuation of deferred tax assets. The option under Section 274 (1) of the German Commercial Code not to recognise deferred tax assets has been exercised.

Sufficient allowance has been made for risks arising from the lending business. The risk provisions recognised in the balance sheet for the lending business consist of specific loan loss provisions affecting net income (the amount corresponds to the difference between the carrying amount of the loan and the present value of the expected cash inflows from interest and principal repayments as well as the payment streams from collateral) and portfolio loan loss provisions for loans and advances for which no specific loan loss provisions have been made. In addition, risk provisions are recognised for contingent liabilities and irrevocable loan commitments, both for individually identified risks (specific loan loss provisions) and for impairments that have not yet been identified individually (portfolio loan loss provisions). Additions and reversals are reported net under the item 'Write-downs of and valuation adjustments on loans and specific securities and increase in loan loss provisions' or 'Income from write-ups on loans and specific securities and from reversal of loan loss provisions'. Use is made in the income statement of options to offset pursuant to Section 340f (3) and Section 340c (2) of the German Commercial Code. Interest income on non-performing loans is recognised in principle on the basis of expectations.

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

The valuation of interest rate-related transactions in the banking book *(Refinanzierungsverbund)* reflects KfW IPEX-Bank's interest rate risk management. The principle of prudence as required under the German Commercial Code is taken into account by establishing a provision in accordance with Section 340a (1) in conjunction with Section 249 (1) sentence 1, 2nd alternative of the Code for potential excess obligations resulting from the valuation of the interest-driven banking book. The requirements set forth in the statement of the Banking Panel of Experts of the Institute of Public Auditors in Germany *(Institut der Wirtschaftsprüfer in Deutschland – IDW)* on the loss-free valuation of the banking book (BFA 3) are taken into account. In order to determine any excess obligation, KfW IPEX-Bank calculates the balance of all discounted future net income of the banking book. Together with net interest income, this includes relevant fee and commission income, administrative expenses and risk costs in the amount of expected losses. No such provision for contingent losses was required in the reporting year.

In the context of the ongoing period of low interest rates, negative interest rates occurred again on the money and capital markets in 2016. Disclosure requirements for the income statement under German commercial law include separate disclosure of negative interest under net interest income – in the form of new items or a breakdown of existing items – wherever these rates have a material impact.
The analysis performed for KfW IPEX-Bank found that amounts with a material impact occurred only in connection with money market transactions in 2016. The way this negative interest is shown in the template has changed compared to the previous year. Whereas negative interest arising from assets-side money market transactions has to date been recorded under interest expense, and negative interest arising from liabilities-side money market transactions under interest income, all interest amounts from assets-side (liabilities-side) money market transactions are now shown under interest income (interest expense), irrespective of whether they are positive or negative. Open disclosure is achieved by showing a breakdown of (sub-)items. Values from the previous year have been adjusted accordingly.

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

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

Group affiliation

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

Notes on assets

Loans and advances to banks and customers

Remaining term structure of loans and advances

		Maturity with agreed term or period of notice					
	Due on demand	**Up to 3 months**	**More than 3 months to 1 year**	**More than 1 year to 5 years**	**More than 5 years**	**Pro rata interest**	**Total**
	EUR in thousands	**EUR in thousands**	**EUR in thousands**	**EUR in thousands**	**EUR in thousands**	**EUR in thousands**	**EUR in thousands**
Loans and advances to banks[1)]	93,036	269,674	708,649	368,047	30,807	12,001	1,482,214
(as of 31 Dec. 2015)	*686,285*	*149,850*	*599,720*	*186,911*	*25,325*	*8,037*	*1,656,128*
Loans and advances to customers	0	1,097,221	2,909,697	11,738,357	9,292,468	96,663	25,134,406
(as of 31 Dec. 2015)	*0*	*949,672*	*2,901,183*	*11,728,487*	*8,679,889*	*90,729*	*24,349,960*
Total	**93,036**	**1,366,895**	**3,618,346**	**12,106,404**	**9,323,275**	**108,664**	**26,616,620**
(as of 31 Dec. 2015)	*686,285*	*1,099,522*	*3,500,903*	*11,915,398*	*8,705,214*	*98,766*	*26,006,088*
in %	**0**	**5**	**14**	**46**	**35**	**0**	**100**

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

	Loans and advances to		
	Banks	**Customers**	**Total**
of which to:	**EUR in thousands**	**EUR in thousands**	**EUR in thousands**
Shareholder	0	0	**0**
Affiliated companies	100,164	51,844	**152,008**
Companies in which KfW IPEX-Bank holds a stake	0	7,293	**7,293**
Subordinated assets	0	14,499	**14,499**

Bonds and other fixed-income securities

Listed/marketable securities

	31 Dec. 2016	**31 Dec. 2015**
	EUR in thousands	**EUR in thousands**
Listed securities	2,329,424	2,233,320
Unlisted securities	0	0
Marketable securities	**2,329,424**	**2,233,320**

The ‘Bonds and other fixed-income securities’ item totalling EUR 2,329 million (previous year: EUR 2,233 million) contains a portfolio of high-quality and highly liquid KfW securities (HQLA portfolio) in the amount of EUR 2,114 million (previous year: EUR 1,985 million), with KfW as an affiliated company. The portfolio includes securities amounting to EUR 325 million (previous year: EUR 337 million) which fall due during the year following the balance sheet date.
The HQLA portfolio is assigned to current assets and is hedged by means of asset swaps. ‘Loss peaks’ arising from fluctuations in the bonds and their associated asset swaps have a direct impact on the income statement. Other securities (EUR 0.2 billion) are assigned to fixed assets.

Fixed assets

	Change	Residual book value	Residual book value
	2016[1]	31 Dec. 2016	31 Dec. 2015
	EUR in thousands	EUR in thousands	EUR in thousands
Investments	–318	95,636	95,954
Bonds and other fixed-income securities	–32,690	215,535	248,225
of which: included in valuation units within the meaning of Section 254 of the German Commercial Code (HGB)	*–26,389*	*15,383*	*41,772*
Total	**–33,008**	**311,171**	**344,179**

[1] Including exchange rate changes

	Purchase/ production costs	Additions	Disposals	Transfers	Purchase/ production costs as of 31 Dec. 2016	Cumulative depreciation/impairment as of 1 Jan. 2016
	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands
Intangible assets	511	0	81	0	430	105
Property, plant and equipment[2]	719	210	103	0	826	392
Sum	**1,230**	**210**	**184**	**0**	**1,256**	**498**
Total						

	Depreciation/ impairment 2016	Write-ups	Cumulative depreciation/ impairment on … in the financial year			Cumulative depreciation/ impairment as of 31 Dec. 2016	Residual book value 31 Dec. 2016	Residual book value 31 Dec. 2015
			Additions	Disposals	Transfers			
	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands
Intangible assets	49	0	0	81	0	74	356	406
Property, plant and equipment[2]	127	0	23	103	0	416	410	327
Sum	**176**	**0**	**23**	**184**	**0**	**490**	**766**	**733**
Total							**311,937**	**344,912**

[2] Of which: as of 31 Dec. 2016: – total value of plant and equipment: EUR 410 thousand
– total value of land and buildings used for the bank’s activities: EUR 0 thousand

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

Bonds and other fixed-income securities held under fixed assets have been valued in accordance with the moderate lower of cost or market principle. As a result, it has been possible to avoid write-downs totalling EUR 1 million on these securities, since a recovery is expected before their maturity date.

The book value of these securities that are reported above their fair value totals EUR 191 million. The corresponding fair value of these securities is EUR 190 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 %	USD in thousands	USD in thousands
1.	Sperber Rail Holdings Inc., Wilmington, USA	100.0	2,445	–90
2.	Bussard Air Leasing Ltd., Dublin, Ireland	100.0	–2,317	218
3.	Canas Leasing Ltd., Dublin, Ireland	50.0	0	0
4.	8F Leasing S.A., Luxembourg	22.2	11,785	429

[1)] Figures available as of 31 Dec. 2015 only.

Assets held in trust

	31 Dec. 2016	31 Dec. 2015	Change
	EUR in thousands	EUR in thousands	EUR in thousands
Loans and advances to banks	93,596	99,730	–6,134
Loans and advances to customers	145,971	96,165	49,806
Total	**239,567**	**195,895**	**43,672**

In addition to assets held in trust of EUR 240 million that are recognised in the balance sheet and are owned by the bank in civil-law terms, KfW IPEX-Bank also administers the E&P trust business totalling EUR 23.7 billion (previous year: EUR 23.2 billion) on behalf of KfW as an indirect agent.

Other assets

Other assets totalling EUR 100 million (previous year: EUR 5 million) primarily include the balancing item for the foreign currency translation of derivative hedges amounting to EUR 97 million and receivables from the financial authorities arising from tax advances and tax refund claims amounting to EUR 2 million (previous year: EUR 2 million).

Prepaid expenses and deferred charges

Prepaid expenses and deferred charges of EUR 22 million (previous year: EUR 28 million) include in particular upfront interest payments from swaps amounting to EUR 22 million (previous year: EUR 27 million) and discounts from liabilities capitalised as assets totalling EUR 1 million (previous year: EUR 1 million).

Notes on liabilities and equity

Liabilities to banks and customers

Maturities structure of liabilities

	Due on demand	Maturity with agreed term or period of notice: 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	27,651	3,771,079	3,622,477	10,795,682	5,361,143	96,720	23,674,752
(as of 31 Dec. 2015)	*13,799*	*3,708,474*	*3,807,452*	*10,383,974*	*4,757,291*	*90,503*	*22,761,493*
Liabilities to customers – other liabilities	10,742	307,997	0	4,366	44,646	4,703	372,454
(as of 31 Dec. 2015)	*22,674*	*460,113*	*10,388*	*2,708*	*55,965*	*3,902*	*555,750*
Total	**38,393**	**4,079,076**	**3,622,477**	**10,800,048**	**5,405,789**	**101,423**	**24,047,206**
(as of 31 Dec. 2015)	*36,473*	*4,168,587*	*3,817,840*	*10,386,682*	*4,813,256*	*94,405*	*23,317,243*
in %	**0**	**17**	**15**	**45**	**23**	**0**	**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	23,537,756	0	23,537,756
Companies in which KfW IPEX-Bank holds a stake	0	0	0

Special information for Pfandbrief banks

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

		31 Dec. 2016	31 Dec. 2015
		EUR in millions	EUR in millions
Public Pfandbriefe in issue		**1,112**	**939**
Cover assets			
Loans and advances to customers		1,186	955
a) mortgage loans		*0*	*0*
b) municipal loans		*567*	*525*
c) other loans and advances		*619*	*430*
Bonds and other fixed-income securities		185	75
Cover assets total		**1,371**	**1,030**
Over-collateralisation	**absolute value**	**259**	**91**
	in %	**23**	**10**

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

Information on total liabilities and maturity structure

Section 28 (1) Nos 1 and 3 of the German Pfandbrief Act Relation between Pfandbriefe in issue and cover pool		Nominal value		Net present value		Risk-adjusted net present value including forex stress[1)]	
		31 Dec. 2016 EUR in millions	31 Dec. 2015 EUR in millions	31 Dec. 2016 EUR in millions	31 Dec. 2015 EUR in millions	31 Dec. 2016 EUR in millions	31 Dec. 2015 EUR in millions
Total value of Pfandbriefe in issue including derivatives		1,112	939	1,124	950	983	829
of which: derivatives		*0*	*0*	*0*	*0*	*0*	*0*
Total value of cover pools including derivatives		1,371	1,030	1,460	1,110	1,306	965
of which: derivatives		*0*	*0*	*0*	*0*	*0*	*0*
Over-collateralisation	**absolute value**	**259**	**91**	**337**	**160**	**323**	**136**
	in %	**23**	**10**	**30**	**17**	**33**	**16**

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

Section 28 (1) No 2 of the German Pfandbrief Act Maturity structure and fixed-interest period	Pfandbriefe in circulation		Cover pool	
	31 Dec. 2016 EUR in millions	31 Dec. 2015 EUR in millions	31 Dec. 2016 EUR in millions	31 Dec. 2015 EUR in millions
up to 6 months	95	0	59	44
more than 6 to 12 months	0	0	86	45
more than 12 to 18 months	190	92	114	47
more than 18 months to 2 years	0	0	65	72
more than 2 to 3 years	95	184	238	146
more than 3 to 4 years	75	92	127	94
more than 4 to 5 years	50	75	127	91
more than 5 to 10 years	607	496	441	389
more than 10 years	0	0	114	102

Section 28 (1) No 9 of the German Pfandbrief Act	31 Dec. 2016 in %	31 Dec. 2015 in %
Proportion of fixed-rate		
– cover pool	*29*	*29*
– Pfandbriefe	*25*	*13*

Section 28 (1) No 10 of the German Pfandbrief Act (as per Section 6 of the Pfandbrief Net Present Value Regulation)	Net present value in EUR	
	31 Dec. 2016 EUR in millions	31 Dec. 2015 EUR in millions
AUD	18	0
USD	58	49

Structure of cover assets

	Section 28 (1) Nos 4 and 5 of the German Pfandbrief Act Total value of claims registered				Section 28 (1) No 8 of the German Pfandbrief Act Total value of claims exceeding thresholds	
	Equalisation claims within the meaning of Section 20 (2) No 1 of the Pfandbrief Act		Claims within the meaning of Section 20 (2) No 2 of the Pfandbrief Act			
	31 Dec. 2016	31 Dec. 2015	31 Dec. 2016	31 Dec. 2015	31 Dec. 2016	31 Dec. 2015
	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions
Total	**0**	**0**	**0**	**0**	**0**	**0**
of which: covered bonds[1]			*0*	*0*		

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

	Section 28 (3) No 1 of the German Pfandbrief Act Total value of claims used by size class	
	31 Dec. 2016	31 Dec. 2015
	EUR in millions	EUR in millions
up to EUR 10 million	13	4
more than EUR 10 million to EUR 100 million	229	219
more than EUR 100 million	1,129	807
Total	**1,371**	**1,030**

	Section 28 (3) No 2 of the German Pfandbrief Act Total value of claims used by country and debtor class											
	Government				Regional authorities				Local authorities			
	31 Dec. 2016		31 Dec. 2015		31 Dec. 2016		31 Dec. 2015		31 Dec. 2016		31 Dec. 2015	
	a[1]	b[2]	a[1]	b[2]	a[1]	b[2]	a[1]	b[2]	a[1]	b[2]	a[1]	b[2]
	EUR in millions		EUR in millions		EUR in millions		EUR in millions		EUR in millions		EUR in millions	
Federal Republic of Germany	0	944	0	807	0	0	0	0	0	40	0	40
Denmark	0	0	0	0	0	0	0	0	0	0	0	0
Finland	0	0	0	0	0	0	0	0	0	0	0	0
Austria	0	9	0	10	0	0	0	0	0	0	0	0
Total	**0**	**953**	**0**	**817**	**0**	**0**	**0**	**0**	**0**	**40**	**0**	**40**

[1] Owed
[2] Guaranteed

	Other debtors				Total		thereof: guarantees provided to promote export finance	
	31 Dec. 2016		31 Dec. 2015		31 Dec. 2016	31 Dec. 2015	31 Dec. 2016	31 Dec. 2015
	a[1]	b[2]	a[1]	b[2]				
	EUR in millions		EUR in millions		EUR in millions	EUR in millions	EUR in millions	EUR in millions
Federal Republic of Germany	267	0	121	0	1,251	968	944	807
Denmark	0	56	0	52	56	52	56	52
Finland	0	55	0	0	55	0	55	0
Austria	0	0	0	0	9	10	9	10
Total	**267**	**111**	**121**	**52**	**1,371**	**1,030**	**1,064**	**869**

Claims outstanding

	Section 28 (3) Nº 3 of the German Pfandbrief Act Total value of claims outstanding for at least 90 days		Section 28 (3) Nº 3 of the German Pfandbrief Act Total value of claims where the arrear is at least 5% of the claim	
	31 Dec. 2016	31 Dec. 2015	31 Dec. 2016	31 Dec. 2015
	EUR in millions	EUR in millions	EUR in millions	EUR in millions
Government	0	0	0	0
Regional authorities	0	0	0	0
Local authorities	0	0	0	0
Other debtors	0	0	0	0
Total	**0**	**0**	**0**	**0**

Liabilities held in trust

	31 Dec. 2016	31 Dec. 2015	Change
	EUR in thousands	EUR in thousands	EUR in thousands
Liabilities to banks	0	3,707	–3,707
Liabilities to customers	239,567	192,188	47,379
Total	**239,567**	**195,895**	**43,672**

Other liabilities

Other liabilities of EUR 109 million (previous year: EUR 70 million) mainly consist of the liability to KfW Beteiligungsholding GmbH resulting from the existing profit transfer agreement of EUR 105 million and liabilities to the financial authorities of EUR 2 million (previous year: EUR 2 million).

Deferred income

Deferred income totalling EUR 33 million (previous year: EUR 37 million) mainly comprises discounts from upfront interest payments from swaps that have been received but do not yet impact income of EUR 26 million (previous year: EUR 29 million) and discounts from receivables purchases of EUR 7 million (previous year: EUR 7 million).

Provisions

In addition to provisions for pensions and similar commitments totalling EUR 124 million (previous year: EUR 117 million) and tax provisions amounting to EUR 7 million (previous year: EUR 27 million), other provisions of EUR 54 million (previous year: EUR 52 million) were recognised as of 31 December 2016. These other provisions relate in particular to liabilities to staff (EUR 25 million), provisions for credit risks (EUR 14 million) and archiving costs (EUR 7 million).
The difference between provisions for pension commitments recognised on the basis of the average market interest rate from the last ten financial years and provisions recognised based on the average market interest rate from the last seven financial years, in accordance with Section 253 (6) sentence 1 of the German Commercial Code, came to EUR 22 million as of 31 December 2016.

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. until 27 February 2015; premium subsequently increases by 0.5 % to + 1.35 % p.a.	31 Dec. 2019

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

Interest expense for subordinated loans in 2016 amounted to the equivalent of EUR 16 million (previous year: EUR 12 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. 2016 EUR in millions	31 Dec. 2015 EUR in millions	Change EUR in millions
Power, Renewables and Water	721	881	–160
Maritime Industries	295	178	117
Industries and Services	192	360	–168
Basic Industries	159	211	–52
Aviation and Rail	139	137	2
Transport and Social Infrastructure (PPP)	128	152	–24
Financial Institutions, Trade and Commodity Finance	6	42	–36
Equity Portfolio	0	0	0
Total	**1,640**	**1,961**	**–321**

New guarantees given in financial year 2016 amounted to EUR 46 million. In contrast, a total of EUR 367 million was redeemed.

Irrevocable loan commitments

Sector department	31 Dec. 2016 EUR in millions	31 Dec. 2015 EUR in millions	Change EUR in millions
Power, Renewables and Water	1,793	1,644	149
Maritime Industries	1,342	1,867	–525
Industries and Services	933	666	267
Basic Industries	786	1,294	–508
Aviation and Rail	781	1,011	–230
Transport and Social Infrastructure (PPP)	614	594	20
Financial Institutions, Trade and Commodity Finance	395	611	–216
Equity Portfolio	0	2	–2
Total	**6,644**	**7,689**	**–1,045**

Total irrevocable loan commitments as of 31 December 2016 stood at EUR 6,644 million. Risks from these transactions are taken into account by creating portfolio loan loss provisions and specific loan loss provisions.

Required disclosures on the income statement

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

In financial year 2016, income from Frankfurt am Main and London was as follows:

	31 Dec. 2016			31 Dec. 2015		
	Frankfurt	London	Total	Frankfurt	London	Total
	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands
Interest income	652,735	20,030	672,765	674,049	24,019	698,068
Current income from						
a) shares and other non-fixed-income securities	0	0	0	491	0	491
b) investments	9	0	9	8	0	8
c) shares in affiliated companies	0	0	0	0	0	0
Commission income	158,488	328	158,816	191,052	571	191,623
Other operating income	30,636	10,491	41,127	34,165	17,389	51,554
Total	**841,868**	**30,849**	**872,717**	**899,765**	**41,979**	**941,744**

Interest expense and interest income

Valuation of provisions led to interest expense from compounding of EUR 4,533 thousand and interest income from discounting of EUR 305 thousand.

Negative interest amounts only arose to a significant extent in the context of money market transactions. Negative interest income of EUR 2,048 thousand (previous year: EUR 1,640 thousand) resulted from call money and term lending, while positive interest expense of EUR 1,383 thousand (previous year: EUR 270 thousand) resulted from call money and term borrowings.

Other operating expense

Other operating expense amounted to EUR 29 million (previous year: EUR 8 million). This primarily includes realised and unrealised exchange losses from foreign currency valuation totalling EUR 28 million (previous year: EUR 8 million).

Other operating income

Other operating income of EUR 41 million (previous year: EUR 52 million) chiefly relates to realised and unrealised exchange gains from foreign currency valuation totalling EUR 36 million (previous year: EUR 45 million) and income from services provided to group companies totalling EUR 2 million (previous year: EUR 2 million).

Taxes on income

Taxes on income totalling EUR 3 million (previous year: EUR 93 million) mainly relate to income tax expense for the branch office in London, which is still incurred irrespective of the profit transfer agreement concluded between KfW Beteiligungsholding GmbH and KfW IPEX-Bank.

Appropriation of profit

As part of the implementation of the profit transfer agreement concluded with effect from 1 January 2016, the annual profit (EUR 105 million) is to be transferred to KfW Beteiligungsholding GmbH, subject to approval of the financial statements by the general shareholders' meeting. In this respect, a separate proposal or resolution regarding the appropriation of profit is not required.

Other required disclosures

Assets and liabilities denominated in foreign currency

Assets and liabilities denominated in foreign currency as well as cash transactions that were not settled by the balance sheet date were converted into euros at the average spot exchange rates applicable as of 31 December 2016.

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

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

As of 31 December 2016, total assets denominated in foreign currency converted in accordance with Section 340h in conjunction with Section 256a of the German Commercial Code amounted to EUR 18.6 billion (previous year: EUR 16.8 billion), of which EUR 17.2 billion related to loans and advances to customers.

Total liabilities denominated in foreign currency amounted to EUR 18.6 billion (previous year: EUR 16.8 billion), of which the majority (EUR 14.5 billion) related to liabilities to banks.

Other financial liabilities

Total call obligations arising in connection with equity finance transactions added up to EUR 7 million (previous year: EUR 11 million).

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

Valuation units

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

	Nominal value		Carrying amount		Fair value	
	31 Dec. 2016	**31 Dec. 2015**	**31 Dec. 2016**	**31 Dec. 2015**	**31 Dec. 2016**	**31 Dec. 2015**
	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	15	40	15	42	16	43
Liquidity reserve						
Bonds and other fixed-income securities	2,100	1,970	2,114	1,985	2,142	2,012
Total	**2,115**	**2,010**	**2,129**	**2,027**	**2,158**	**2,055**

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

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

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

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

In connection with hedging interest rate risks in the banking book, the derivative financial instruments used for this purpose and the interest-bearing underlying transactions form part of asset/liability management, along with valuation units in accordance with Section 254 of the German Commercial Code. KfW IPEX-Bank manages the market value of all interest-bearing transactions in the banking book as one unit. As of 31 December 2016 there was a positive present value.

Derivatives reporting

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

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

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

As part of limit management and in order to hedge against default risks, KfW IPEX-Bank has also purchased single-name credit default swaps (SNCDSs) as the protection buyer. Ongoing results were accrued on a pro rata basis in the respective period. A portfolio was no longer held as of 31 December 2016.

In the following table, the calculation of market values for all contract types is based on the market valuation method. It discloses the positive and negative fair values of derivative positions as of 31 December 2016.

Derivative transactions – volumes

	Nominal value		Fair values positive	Fair values negative
	31 Dec. 2016	31 Dec. 2015	31 Dec. 2016	31 Dec. 2016
	EUR in millions	EUR in millions	EUR in millions	EUR in millions
Contracts with interest rate risks				
Interest rate swaps	22,568	19,033	887	1,040
Swaptions	49	0	0	0
Caps/Floors	56	0	0	0
Total	**22,673**	**19,033**	**887**	**1,040**
Contracts with foreign exchange risks				
Cross-currency swaps	1,154	1,191	91	23
FX swaps	2,360	729	15	7
FX forward transactions	51	139	2	2
Total	**3,565**	**2,059**	**108**	**32**
Share and other price risks	**0**	**0**	**0**	**0**
Credit derivatives	**0**	**10**	**0**	**0**
Total	**26,238**	**21,102**	**996**	**1,072**

Derivative transactions – maturities by nominal volume

	Interest rate risks		Foreign exchange risks		Credit derivatives	
	31 Dec. 2016	31 Dec. 2015	31 Dec. 2016	31 Dec. 2015	31 Dec. 2016	31 Dec. 2015
	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions
Maturity						
– up to 3 months	407	376	2,227	694	0	0
– more than 3 months to 1 year	1,360	1,173	534	266	0	10
– more than 1 year to 5 years	9,821	8,210	651	889	0	0
– more than 5 years	11,085	9,274	153	210	0	0
Total	**22,673**	**19,033**	**3,565**	**2,059**	**0**	**10**

Derivative transactions – counterparties

	Nominal value		Fair values positive	Fair values negative
	31 Dec. 2016	31 Dec. 2015	31 Dec. 2016	31 Dec. 2016
	EUR in millions	EUR in millions	EUR in millions	EUR in millions
Counterparties				
OECD banks	17,768	14,246	181	1,006
Non-OECD banks	0	0	0	0
Other counterparties	8,470	6,856	815	66
Public sector	0	0	0	0
Total	**26,238**	**21,102**	**996**	**1,072**

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 17,847 million as of 31 December 2016 (previous year: EUR 13,811 million). In addition, financial guarantees amounting to EUR 128 million (previous year: EUR 119 million) were administered.

	31 Dec. 2016 EUR in millions	31 Dec. 2015 EUR in millions	Change EUR in millions
Market business	5,339	4,291	1,048
Trust business	9,693	7,191	2,502
Other[1]	2,815	2,329	486
Total	**17,847**	**13,811**	**4,036**

[1] Including refinancing for CIRR ship financings by third-party banks totalling EUR 2,719 million (previous year: EUR 2,279 million)

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

Personnel

The average number of staff, not including trainees and the Management Board (but including temporary staff), was calculated from the end-of-quarter figures during financial year 2016.

	2016	2015	Change
Female employees	309	303	6
Male employees	353	345	8
Staff not covered by collective agreements	550	536	14
Staff covered by collective agreements	112	112	0
Total	**662**	**648**	**14**

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

Total remuneration paid to the members of the Management Board in financial year 2016 was EUR 1,817 thousand. Details of the remuneration paid to the members of the Management Board are given in the following table.

Annual remuneration[1)]

	Salary	Variable remuneration	Other remuneration[2)]	Total
	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands
Klaus R. Michalak (CEO)	395	36	15	446
Christian K. Murach	395	46	19	460
Markus Scheer	395	46	23	464
Andreas Ufer	395	21	30	446
Total	**1,579**	**150**	**88**	**1,817**

1) Differences may occur in the table due to rounding.
2) Other remuneration comprises payments for use of company cars, insurance premiums and taxes incurred on such remuneration.

Total remuneration paid to the members of the Board of Supervisory Directors was EUR 132 thousand (net). Attendance fees amounting to EUR 82 thousand (net) were also paid. Remuneration is structured as follows: Annual remuneration amounts to EUR 22 thousand (net) for membership of the Board of Supervisory Directors and EUR 29 thousand (net) for the chairmanship. In addition, attendance fees of EUR 1 thousand are paid for meetings of the Board of Supervisory Directors and the Loan, Executive and Audit Committees respectively, in each case pro rata where membership is for less than the whole year. Members of the Board of Supervisory Directors can also claim reimbursement of travel and other miscellaneous expenses to a reasonable extent. There were no payments made to former members of the Board of Supervisory Directors, or to their surviving dependents. Remuneration to members of the Executive Board of KfW, who on the basis of Section 9 (1) of the Articles of Association of KfW IPEX-Bank are members of the Board of Supervisory Directors, was suspended with effect from 1 July 2011 until further notice. State Secretary Machnig also waived his remuneration and attendance fees.

Deferred performance-based bonuses totalling EUR 40 thousand and retirement pension payments totalling EUR 172 thousand were paid to former members of the Management Board in the 2016 financial year. As of 31 December 2016, provisions for pensions for former members of the Management Board and their surviving dependents stood at a total of EUR 7,184 thousand.

As of 31 December 2016, there were no loans outstanding to members of the Management Board or the Board of Supervisory Directors.

Subsequent events

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

Board of Supervisory Directors

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

Norbert Gasten
(KfW IPEX-Bank employee representative, Project Manager)
from 1 August 2016

Johannes Geismann
(State Secretary, Federal Ministry of Finance)
up to 20 October 2016

Ulrich Goretzki
(KfW IPEX-Bank employee representative)
up to 31 July 2016

Dagmar P. Kollmann
(Businesswoman and Supervisory Board member)

Bernd Loewen
(Member of the Executive Board, KfW Group)
up to 20 March 2016

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

Dr Nadja Marschhausen
(KfW IPEX-Bank employee representative, Team Head)

Dr Stefan Peiß
(Member of the Executive Board, KfW Group)
from 21 March 2016

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

Dr Ludger Schuknecht
(Head of Directorate, Federal Ministry of Finance)
from 3 November 2016

Friedrich Weigmann
(KfW IPEX-Bank employee representative, Project Manager)

Management Board

Klaus R. Michalak
(CEO)

Christian K. Murach

Markus Scheer

Andreas Ufer

Frankfurt am Main, 14 February 2017

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

Markus Scheer | **Andreas Ufer**

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 2016. 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, 28 February 2017

KPMG AG
Wirtschaftsprüfungsgesellschaft

Wiechens
Certified accountant

Helke
Certified accountant

Disclosures in accordance with Section 26a of the German Banking Act

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

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

Turnover has been defined as the operating result before risk provisions and administrative expenses.
The disclosures were made on the basis of the individual financial statements of KfW IPEX-Bank GmbH prepared in accordance with the German Commercial Code (*Handelsgesetzbuch – HGB*) as of 31 December 2016[5].

Country	Company name	Nature of activities	Geographical location of branches	Turnover[2]	Number of employees	Profit before tax[2]	Tax on profit[2]	Public subsidies received
				EUR in millions	in FTE[1]	EUR in millions	EUR in millions	EUR in millions
EU countries								
Germany	KfW IPEX-Bank GmbH	Export and project finance	Frankfurt am Main	489.16	564	94.45	–0.12	0.00
UK	KfW IPEX-Bank GmbH	Export and project finance	London	19.73	21	13.43	2.95	0.00

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

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

As of 31 December 2016, the return on assets within the meaning of Section 26a (1) sentence 4 of the Act is 0.0036 or 0.36%.

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

Corporate Governance Report

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

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

Declaration of compliance

The Management Board and the Board of Supervisory Directors of KfW IPEX-Bank hereby declare: 'Since the last Declaration of Compliance submitted on 18 March 2016, the recommendations of the Federal Government's Public Corporate Governance Code, as adopted by the Federal Government on 1 July 2009, have been and will continue to be fulfilled, with the exception of the following recommendations.'

D&O insurance deductible

KfW has concluded D&O insurance contracts in the form of a group insurance policy which also provides insurance cover for members of the Management Board and the Board of Supervisory Directors of KfW IPEX-Bank. During the reporting period, these contracts contain only an option to introduce a deductible, contrary to Clause 3.3.2 of the PCGC. The decision to exercise this option will be taken together with the Chairman and Deputy Chairman of the Board of Supervisory Directors of KfW. A deductible is scheduled to be introduced into these D&O insurance contracts for members of the Management Board in 2017. This deductible complies with the provisions of Clause 3.3.2 of the PCGC.

Delegation to committees:

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

Loans to members of bodies:

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

Allocation of responsibilities

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

Cooperation between the Management Board and the Board of Supervisory Directors

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

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

Management Board

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

- Mr Klaus R. Michalak: Finance, Products and Corporate Affairs (CEO and CFO)
- Mr Christian K. Murach: Markets II and Treasury
- Mr Markus Scheer: Markets I
- Mr Andreas Ufer: Risk

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

Board of Supervisory Directors

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

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

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

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

Committees of the Board of Supervisory Directors

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

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

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

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

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

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

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

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

Shareholder

Following the merger of KfW IPEX-Beteiligungsholding GmbH into KfW-Beteiligungsholding GmbH, KfW-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, for the determination of the amount available for payment of performance-based, variable remuneration within the company, for the appointment and removal of members of the Board of Supervisory Directors who are not employee representatives, and members of the Management Board, for the formal approval of their work at the end of each financial year, and for the appointment of the auditor.

Supervision

Since its spin-off, KfW IPEX-Bank GmbH has been fully subject to the provisions of the German Banking Act. With effect from 1 January 2008, BaFin granted the bank a licence to act as an IRBA (Internal Ratings-Based Approach) bank for rating corporates, banks, sovereigns and specialist financings (elementary/slotting approach). The bank uses the standard approach to calculate the regulatory capital requirements associated with operational risks. Due to the special status of KfW (in accordance with Section 2 (1) No 2 of the German Banking Act, KfW is not considered a credit institution), there is a financial holding group within the meaning of Section 10a of the German Banking Act in conjunction with Article 11 ff. of the CRR, for which KfW IPEX-Bank GmbH is the superordinated undertaking. With effect from 16 June 2016, KfW IPEX-Bank GmbH has incorporated KfW Beteiligungsholding GmbH into the consolidated group for regulatory reporting purposes as a subordinated undertaking within the meaning of Section 10a (1) sentence 3 of the German Banking Act. KfW IPEX-Bank GmbH had previously incorporated KfW IPEX-Beteiligungsholding GmbH, which has now merged into KfW Beteiligungsholding GmbH. The investment in MD Capital Beteiligungsgesellschaft mbH was terminated with effect from 3 April 2016. Up to its liquidation on 3 April 2016, MD Capital Beteiligungsgesellschaft mbH was incorporated in the consolidated group for regulatory reporting purposes.

Protection of deposits

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

Transparency

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

Risk management

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

Compliance

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

Accounting and annual audit

On 30 March 2016, the shareholder of KfW IPEX-Bank appointed KPMG AG Wirtschaftsprüfungsgesellschaft as auditor of the financial statements for the 2016 financial year. The Board of Supervisory Directors then issued the audit assignment to KPMG on 1 August 2016 and in October determined the audit priorities together with the auditor. The bank and the auditor agreed that the Chairman of the Audit Committee would be informed without delay of any findings and incidents arising during the audit that could be of importance to the work of the Board of Supervisory Directors. It was furthermore agreed that the auditor would inform the Audit Committee Chairman if it identified any facts during the audit that would render the Declaration of Compliance with the PCGC incorrect, and/or record this in the audit report. A declaration of auditor independence was obtained.

Efficiency review of the Board of Supervisory Directors

The Board of Supervisory Directors has always regularly reviewed the efficiency of its activities. Since Section 25d (11) of the German Banking Act entered into force on 1 January 2014, the Board of Supervisory Directors has been obliged to evaluate itself and the Management Board on an annual basis. It performed its latest evaluation in the fourth quarter of 2016 on the basis of structured questionnaires. The overall outcome of the audit was a 'good' rating (with an average score of 1.6). The Board of Supervisory Directors' self-evaluation does not indicate an urgent or acute need for any measures to be taken. The evaluation of the Management Board began at the end of 2016 and will be completed in the first quarter of 2017.

Remuneration report

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

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

	2016	2015	Change
	EUR in thousands	EUR in thousands	EUR in thousands
Members of the Management Board	1,817	1,927	–110
Members of the Board of Supervisory Directors	214	207	7
Total	**2,031**	**2,134**	**–103**

Remuneration for the Management Board

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

Components of remuneration

The remuneration of the Management Board consists of a fixed basic annual salary and a variable, performance-based bonus. All contracts are in accordance with Section 25a (5) of the German Banking Act in conjunction with the German Remuneration Ordinance for Institutions *(Institutsvergütungsverordnung – IVV)*. However, as agreed with BaFin, the new requirements of the Ordinance valid from 1 January 2014 were implemented from 1 January 2015. The establishment of the variable, performance-based bonus component is based on an agreement regarding targets that is concluded with the Management Board by the shareholder – after consultation with the Board of Supervisory Directors – at the beginning of each year. This agreement includes financial, quantitative and qualitative targets for the entire bank, targets specific to the areas of responsibility for each member of the Management Board, and also personal targets. 50% of the performance-based bonus, calculated according to achievement of targets, is paid out immediately, up to and including for financial year 2014. The remaining 50% is deferred as a provisional claim and paid into a '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.

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

The ‘value’ of the sustainability component of this variable remuneration may also increase or decrease over the course of the payment period. Until further notice, the cash component will earn interest over the holding period at KfW IPEX-Bank’s interest rate for deferred compensation. Depending on the bank's performance, both the cash and sustainability components of the deferred 60% of the performance-based bonus may be cancelled in their entirety.

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

Annual remuneration paid to active members of the Management Board and additions to pension provisions during 2016 and 2015 in EUR thousands[1)]

	Salary		Variable remuneration		Other remuneration[3)]		Total		Bonus account[4)]		Additions to pensions provisions	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
		EUR in thousands		EUR in thousands		EUR in thousands		EUR in thousands		EUR in thousands		EUR in thousands
Klaus R. Michalak (CEO)	395	395	36	39	15	21	446	456	239	157	121	227
Christiane Laibach[2)]	–	46	–	74	–	89	–	208	44	81	–	1
Christian K. Murach	395	395	46	73	19	20	460	489	207	163	429	944
Markus Scheer	395	395	46	73	23	24	464	493	207	163	76	737
Andreas Ufer	395	262	21	–	30	20	446	281	140	61	63	596
Total	**1,579**	**1,494**	**150**	**259**	**88**	**174**	**1,817**	**1,927**	**837**	**625**	**689**	**2,503**

1) Rounding differences may occur in the table for computational reasons.
2) Left KfW IPEX-Bank GmbH with effect from 15 February 2015
3) This remuneration is presented in analogy with the figures given in the Notes in accordance with Section 285 (9) of the German Commercial Code excluding employer benefits according to the German Social Insurance Act *(Sozialversicherungsgesetz)*. These totalled EUR 49 thousand in 2016 (previous year: EUR 45 thousand).
4) As well as individual performance-based bonuses carried forward from previous years, the bonus account also includes the provision for bonuses for financial year 2016. In this financial year bonus components due for payment were paid out without deductions for penalties.

Responsibilities

The shareholder consults on the remuneration system for the Management Board, including its contractual elements, and reviews it regularly. It approves the remuneration system after consulting with the Board of Supervisory Directors. The most recent review of the system’s appropriateness took place on 24 June 2016.

Contractual fringe benefits

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

The members of the Management Board are insured under a group accident insurance policy. They are covered by two insurance policies for the risks associated with their activities on the bank’s management bodies. The first provides liability insurance for monetary damages (D&O insurance) and the second offers supplemental legal protection for monetary damages. Both policies are group insurance policies. A deductible has not been agreed at present. A deductible is scheduled to be introduced into the D&O insurance contracts for members of the Management Board in 2017. Members of the Management Board of KfW IPEX-Bank acting in their management capacity are also protected by a special group legal expenses insurance policy for employees that covers criminal defence.

Other remuneration does not include remuneration received for the exercise of corporate mandates held and sideline activities performed by a member of the Management Board outside the Group with the approval of the competent bodies of KfW IPEX-Bank. The entire amount of such remuneration is considered personal income of members of the Management Board. In 2016, the members of the Management Board did not receive remuneration for exercising group mandates.

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

In addition, contractual fringe benefits include the costs of security measures for residential property occupied by members of the Management Board; these costs are not reported under

Other remuneration but instead under Non-personnel expense. As in the previous year, the bank did not incur any costs for security measures in the 2016 financial year.

Contractual fringe benefits also comprise employer benefits as per the German Code of Social Law *(Sozialgesetzbuch – SGB)*; in analogy to the figures in the Notes (Section 285 Clause 9 of the German Commercial Code *[Handelsgesetzbuch – HGB]*), these are not reported under Other remuneration.

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

There were no outstanding loans to members of the Management Board in 2016.

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

According to Section 5 (1) of the Articles of Association of KfW IPEX-Bank, the appointment of a member of the Management Board is not to extend beyond statutory retirement age. Board members who turn 65 and/or reach statutory retirement age and whose contract for serving on the Management Board has expired are entitled to retirement pension payments. Board members whose contract for serving on the Management Board was signed before 2014 may, at their request, retire early when they reach 63 years of age. Members of the Management Board are also entitled to retirement pension payments if their employment ends due to ongoing disability.

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

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

In principle, the maximum retirement pension entitlement equals 70% of the pensionable remuneration. In one case the entitlement amounts to 55%. The pension entitlement is derived from the most recent gross basic salaries paid. The retirement pension entitlement increases over an individually agreed period by a fixed percentage with every year of service completed until the maximum pension entitlement is attained.
If the employment contract of a member of the Management Board is terminated or not extended for good cause pursuant to Section 626 of the Civil Code, the retirement pension entitlements will expire according to the legal principles established for employment contracts.

Retirement pension payments to former members of the Management Board totalling EUR 172 thousand (previous year: EUR 141 thousand) were made in the 2016 financial year.

Provisions for pensions for former members of the Management Board and their surviving dependents totalled EUR 7,184 thousand at the end of the 2016 financial year (previous year: EUR 7,381 thousand).

Remuneration for the Board of Supervisory Directors

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

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

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

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

Details regarding the remuneration of the Board of Supervisory Directors during the 2016 and 2015 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 paid to members of the Board of Supervisory Directors for 2016 in EUR

Member	Dates of service	Annual remuneration	Attendance fees[1]	Total
Dr Kloppenburg	1 Jan. – 31 Dec.	–	–	–
Mr Loewen	1 Jan. – 20 Mar.	–	–	–
Dr Peiß	21 Mar. – 31 Dec.	–	–	–
Dr Rupp	1 Jan. – 31 Dec.	22,000	17,00	39,000
State Secretary Geismann[2]	1 Jan. – 20 Oct.	18,334	12,000	30,334
Dr Schuknecht[2]	3 Nov. – 31 Dec.	3,667	4,000	7,667
State Secretary Machnig[3]	1 Jan. – 31 Dec.	–	–	–
Ms Kollmann	1 Jan. – 31 Dec.	22,000	12,000	34,000
Dr Marschhausen	1 Jan. – 31 Dec.	22,000	19,000	41,000
Mr Goretzki	1 Jan. – 31 Jul.	12,834	6,000	18,834
Mr Gasten	1 Aug. – 31 Dec.	9,167	4,000	13,167
Mr Weigmann	1 Jan. – 31 Dec.	22,000	8,000	30,000
Total		**132,002**	**82,000**	**214,002**

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

Remuneration paid to members of the Board of Supervisory Directors for 2015 in EUR

Member	Dates of service	Annual remuneration	Attendance fees[1]	Total
Dr Kloppenburg	1 Jan. – 31 Dec.	–	–	–
Mr Loewen	1 Jan. – 31 Dec.	–	–	–
Dr Rupp	1 Jan. – 31 Dec.	22,000	14,000	36,000
State Secretary Geismann[2]	1 Jan. – 31 Dec.	22,000	15,000	37,000
State Secretary Machnig[3]	1 Jan. – 31 Dec.	–	–	–
Ms Kollmann	1 Jan. – 31 Dec.	22,000	14,000	36,000
Dr Marschhausen	1 Jan. – 31 Dec.	22,000	15,000	37,000
Mr Goretzki	1 Jan. – 31 Dec.	22,000	9,000	31,000
Mr Jacobs	1 Jan. – 31 Jul.	12,834	5,000	17,834
Mr Weigmann	1 Aug. – 31.Dec.	9,167	3,000	12,167
Total		**132,001**	**75,000**	**207,001**

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

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. The first provides liability insurance for monetary damages (D&O insurance) and the second offers supplemental legal protection for monetary damages. Both policies are group insurance policies of KfW. A deductible has not been agreed at present. Members of the Board of Supervisory Directors of KfW IPEX-Bank acting in their capacity as such are also protected by a special group legal expenses insurance policy for employees that covers criminal defence.

Frankfurt, 22 March 2017

Management Board **Board of Supervisory Directors**

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